

Ramco Cements

Cost savings to provide a fillip; delevering in sight; retaining a Buy

Rating: Buy

Target Price: Rs.1,226

Share Price: Rs.1014

Outpacing our estimates, Ramco's volumes were firm. Still rising costs took a toll on its operating performance. While the near-term cost-rise continuing is uncertain, the greater share of green energy, plant modernisation and price hikes would provide the necessary boost. The delevering will be subject to WC needs and growth capex. We maintain our Buy rating, with a higher target price of Rs.1,226 (earlier Rs.1,205).

Volumes beat our estimates; high costs cut into operating performance. With clinker operating at 74% capacity, Ramco's cement volumes grew 22.5% y/y to 2.71m tons despite Kerala (its main market) hit by weekend lockdowns and WB by a heavy monsoon. While demand is still good, with the monsoon ceasing except in some regions, prices are being hiked to offset rising input costs.

While EBITDA fell 12% y/y to Rs3.5bn and EBITDA/ton 28% y/y to Rs1,305 due to high costs, PAT shot up 119% y/y boosted by a deferred tax reversal (Rs3.1bn) on the adoption of Sec.115 BAA of the IT Act,1961.

Kurnool expansion to be delay; cost savings would help. A heavy monsoon delayed the Kurnool expansion. Now, the 2.25m-ton clinker capacity and 1m-ton cement capacity will commence by Dec'21 and Apr'22, respectively. The 0.35m-ton RR Nagar clinker modernisation is expected to commence by end-FY23 and the balance 9 MW WHRS in Jayanthipuram by Q3 FY22, saving on costs. The company is seeking a suitable place in Maharashtra to set up a GU.

Business outlook. With 3.5-4 months of fuel stocks, power & fuel costs are expected to rise 15% in Q3 (Q2 consumption cost: ~\$113/ton, spot pet-coke price ~\$250/ton). Working capital will be higher because of high cost inventory, whereas the delevering will be in FY23 subject to growth capex plans. We expect volume/revenue/EBITDA to clock 12%/15%/11% CAGRs over FY21-24.

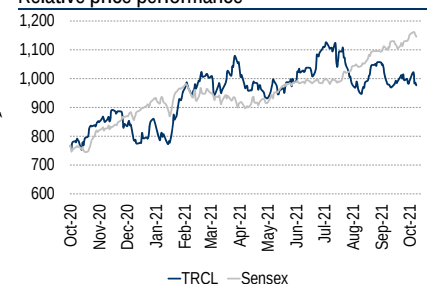
Valuations. We introduce FY24e and maintain a Buy rating, with a higher target of Rs.1,226 (earlier Rs.1,205), based on 15x FY24e EV/EBITDA. **Risks:** Demand slowdown; rise in pet-coke/diesel costs.

Key data	TRCL IN / MSCM.BO
52-week high / low	Rs.1133 / 752
Sensex / Nifty	61350 / 18268
3-m average volume	\$6.8m
Market cap	Rs.239bn / \$3195.2m
Shares outstanding	236m

Shareholding pattern (%)	Sep'21	Jun'21	Mar'21
Promoters	42.5	42.5	42.5
- of which, Pledged	13.8	12.2	13.0
Free float	57.5	57.5	57.5
- Foreign institutions	8.7	8.6	8.3
- Domestic institutions	31.7	22.3	23.2
- Public	17.1	26.5	26.0

Estimates revision (%)	FY22e	FY23e
Sales	(0.7)	(3.5)
EBITDA	(6.2)	(10.3)
PAT	2.3	(4.1)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22e	FY23e	FY24e
Sales (Rs m)	52,854	51,887	61,331	71,410	79,529
Net profit (Rs m)	6,011	7,611	8,474	10,194	12,020
EPS (Rs)	25.5	32.3	35.9	43.2	51.0
P/E (x)	20.1	31.1	28.2	23.5	19.9
EV / EBITDA (x)	14.3	18.1	17.2	14.4	12.5
EV / ton (\$)	109.5	188.0	189.2	175.2	166.1
RoE (%)	12.8	14.4	14.1	14.7	15.1
RoCE - after tax (%)	7.1	8.0	8.4	9.3	10.2
Dividend yield (%)	0.5	0.3	0.2	0.2	0.2
Net debt / equity (x)	0.6	0.5	0.4	0.3	0.1

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Sales volumes (m tons)	11.2	10.0	11.3	12.9	14.1
Net revenues	52,854	51,887	61,331	71,410	79,529
Growth (%)	4.4	-1.8	18.2	16.4	11.4
Direct costs	30,625	26,861	33,691	39,874	44,754
SG&A	11,693	10,344	12,085	13,443	14,954
EBITDA	10,536	14,682	15,555	18,093	19,820
EBITDA margins (%)	19.9	28.3	25.4	25.3	24.9
- Depreciation	3,153	3,553	4,155	4,746	4,945
Other income	1,202	1,144	1,165	1,357	1,909
Interest expenses	714	876	1,241	1,081	721
PBT	7,872	11,397	11,325	13,623	16,063
Effective tax rate (%)	23.64	33.22	25.17	25.17	25.17
+ Associates / (Minorities)	-	-	-	-	-
Net income	6,011	7,611	8,474	10,194	12,020
Adjusted income	6,011	7,611	8,474	10,194	12,020
WANS	236	236	236	236	236
FDEPS (Rs / sh)	25.5	32.3	35.9	43.2	51.0
FDEPS growth (%)	18.82	26.46	11.34	20.29	17.91

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
PBT (Adj. OI and Interest)	7,383	11,129	11,400	13,347	14,875
+ Non-cash items	3,153	3,553	4,155	4,746	4,945
Oper. prof. before WC	10,536	14,682	15,555	18,093	19,820
- Incr. / (decr.) in WC	2,591	-5,507	5,273	1,132	912
Others incl. taxes	1,025	2,440	2,750	3,329	3,943
Operating cash-flow	6,920	17,749	7,531	13,632	14,965
- Capex (tang. + intang.)	19,701	18,024	6,000	6,260	2,100
Free cash-flow	-12,781	-275	1,531	7,372	12,865
Acquisitions					
- Div. (incl. buyback & taxes)	711	708	472	472	472
+ Equity raised	-	0	-	-	-
+ Debt raised	14,054	776	-	-8,000	-10,000
- Fin investments	-19	94	-	-	-
- Misc. (CFI + CFF)	595	-805	175	-176	-1,088
Net cash-flow	-13	504	884	-924	3,481

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

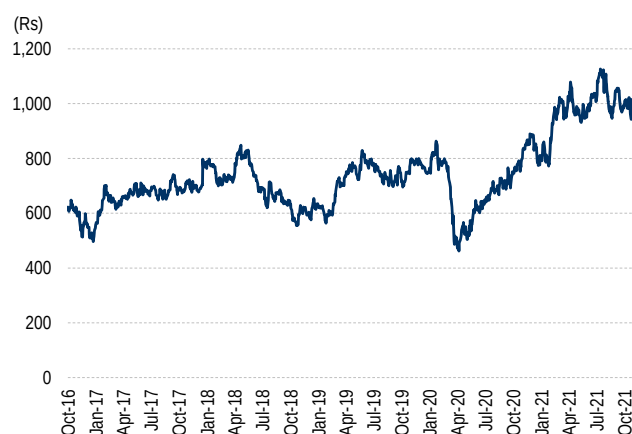
Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
Share capital	236	236	236	236	236
Net worth	49,186	56,268	64,270	73,993	85,541
Debt	30,241	31,017	31,017	23,017	13,017
Minority interest					
DTL / (Assets)	9,172	10,877	10,877	10,877	10,877
Capital employed	88,599	98,162	106,164	107,886	109,434
Net tangible assets	57,316	66,629	88,026	91,540	89,695
Net intangible assets	567	577	577	577	577
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	18,404	23,552	4,000	2,000	1,000
Investments (strategic)	4,271	4,363	4,363	4,363	4,363
Investments (financial)	4	7	7	7	7
Current assets (ex cash)	18,994	16,912	21,340	24,847	27,672
Cash	914	1,419	2,302	1,379	4,860
Current liabilities	11,871	15,296	14,451	16,825	18,738
Working capital	7,123	1,616	6,889	8,021	8,933
Capital deployed	88,599	98,162	106,164	107,886	109,434
Contingent liabilities	8,824	9027	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22e	FY23e	FY24e
P/E (x)	20.1	31.1	28.2	23.5	19.9
EV / EBITDA (x)	14.3	18.1	17.2	14.4	12.5
EV / Sales (x)	2.8	5.1	4.4	3.7	3.1
P/B (x)	2.5	4.2	3.7	3.2	2.8
RoE (%)	12.8	14.4	14.1	14.7	15.1
RoCE (%) - after tax	7.1	8.0	8.4	9.3	10.2
DPS (Rs / sh)	2.5	3.0	2.0	2.0	2.0
Dividend payout (%) - incl. DDT	11.8	9.3	5.6	4.6	3.9
Net debt / equity (x)	0.6	0.5	0.4	0.3	0.1
WC days	49.2	11.4	41.0	41.0	41.0
EV / ton (\$)	109.5	188.0	189.2	175.2	166.1
NSR / ton (Rs)	4,718	5,201	5,451	5,521	5,641
EBITDA / ton (Rs)	940	1,472	1,382	1,399	1,406
Volumes (m tons)	11.20	9.98	11.25	12.94	14.10
CFO : PAT (%)	115.1	233.2	88.9	133.7	124.5

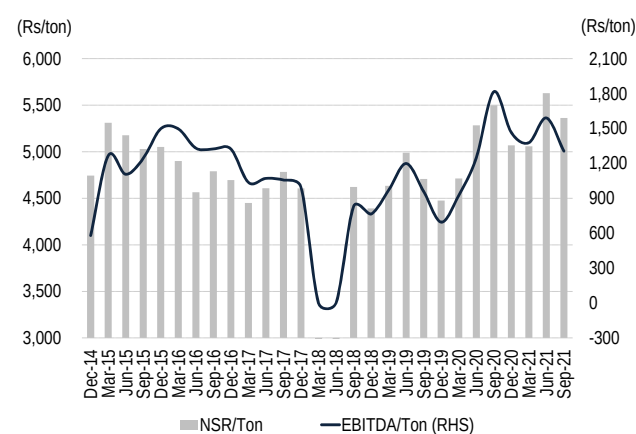
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



Source: Company

Result Highlights

Fig 7 – Quarterly performance

(Rs m)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	% Y/Y	% Q/Q
Sales	15,265	13,486	12,824	12,728	13,817	10,234	12,167	13,249	16,237	12,051	14,531	19.4	20.6
EBITDA	3,192	3,240	2,609	1,977	2,711	2,416	4,017	3,828	4,422	3,404	3,538	-11.9	3.9
EBITDA margins (%)	20.9	24.0	20.3	15.5	19.6	23.6	33.0	28.9	27.2	28.2	24.3	-867bps	-390bps
EBITDA per ton (Rs)	969	1,199	958	695	924	1,247	1,815	1,464	1,377	1,590	1,305	-28.1	-17.9
Interest	128	135	147	215	216	299	265	160	152	243	294	10.9	21.0
Depreciation	767	758	765	797	833	844	855	896	958	956	985	15.3	3.0
Other income	170	435	435	137	195	285	486	205	167	296	480	-1.3	62.0
PBT	2,467	2,782	2,132	1,101	1,857	1,557	3,383	2,977	3,479	2,501	2,738	-19.1	9.5
Tax	813	862	450	153	396	461	1,026	964	1,336	811	(2,432)	NA	NA
PAT	1,654	1,920	1,682	948	1,462	1,096	2,358	2,014	2,144	1,690	5,171	119.3	206.0

Source: Company, Anand Rathi Research

Fig 8 – Per-ton analysis

(Rs / ton)	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	% Y/Y	% Q/Q
Realisation	4,634	4,989	4,708	4,475	4,713	5,283	5,498	5,068	5,058	5,629	5,362	-2.5	-4.7
EBITDA	969	1,199	958	695	924	1,247	1,815	1,464	1,377	1,590	1,305	-28.1	-17.9
Sales volumes (m tons)	3.29	2.70	2.72	2.84	2.93	1.94	2.21	2.61	3.21	2.14	2.71	22.5	26.6
Costs													
Raw material	753	796	777	819	892	797	776	742	931	828	754	-2.8	-8.9
Power & Fuel	892	984	996	911	868	780	823	818	771	1,031	1,056	28.3	2.5
Freight	1,049	1,040	990	996	1,037	1,042	977	1,007	1,074	1,073	1,108	13.4	3.3
Staff	250	327	362	339	288	503	498	382	295	490	404	-18.8	-17.6
Other expenditure	623	696	668	700	790	738	655	575	605	748	698	6.6	-6.7

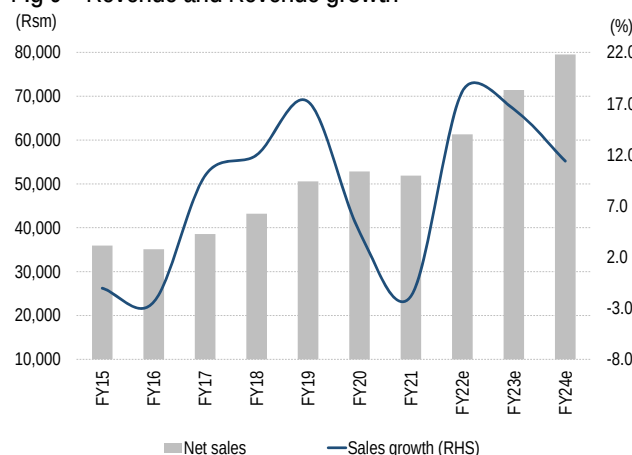
Source: Company, Anand Rathi Research

Other key highlights

Revenue growth

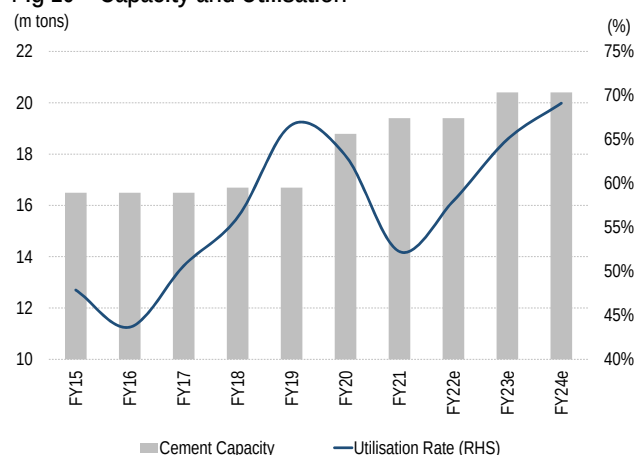
The company's strategy of the right cement for the right application yielded positive results. Ramco's Q2 sales volumes grew 22.5% y/y to 2.71m tons, boosting revenue 19.4% y/y to Rs14.5bn. Realisations, however, slipped 2.5% y/y. Clinker capacity utilisation was 74% (70% a year ago). In Q2 FY22 the wind-power division generated 121.3m units (up 19% y/y) bringing in Rs334.3m revenue (up 16% y/y).

Fig 9 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 10 – Capacity and Utilisation



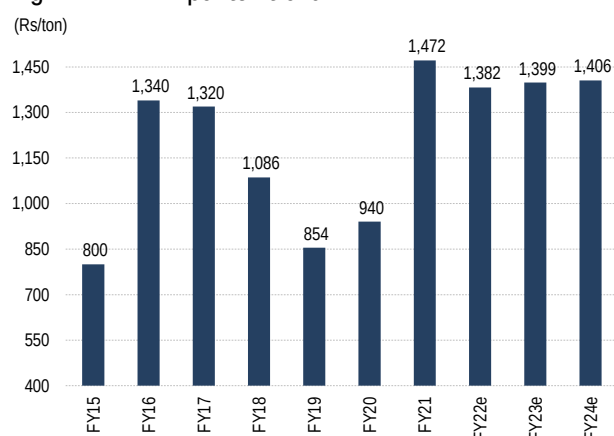
Source: Company, Anand Rathi Research

Operating performance

Higher input costs pushed EBITDA down 12% y/y to Rs3.5bn. EBITDA/ton (blended) slid ~28% y/y to Rs1,305 (from Rs1,815 a year ago, Rs1,590 the quarter prior). Power and fuel cost/ton rose 28.3% y/y because of higher pet-coke and coal costs, and freight cost by 13.4% y/y due to higher diesel prices. Raw material cost slipped 2.8% y/y since no purchased-clinker was consumed. Other expenditure grew 31% y/y, whereas employee costs went down 1% y/y on an absolute basis.

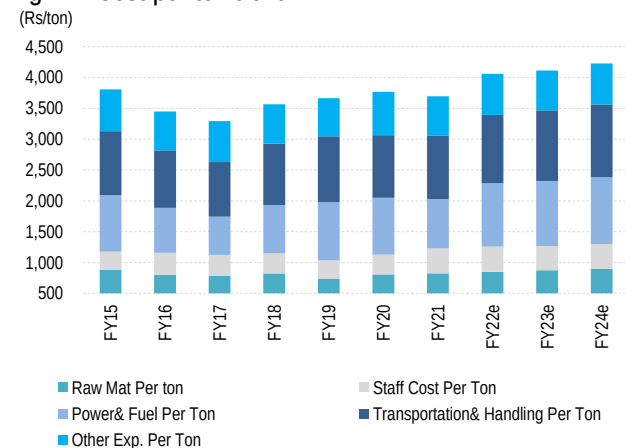
The company opted for the new tax regime under Sec.115BAA of the IT Act, 1961, and reversed a Rs3.1bn deferred tax liability, boosting adj. PAT 119% y/y to Rs5bn.

Fig 11 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 12 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Capex

Of the 4.2m-ton cement capacity expansion, grinding units of 3.2m tons were completed by Q2 FY21 (1.05m tons at Vishakhapatnam, AP, 1m tons in Odisha and 1.1m tons at Kolaghat, West Bengal). The remaining on-going capacity expansion is on schedule but for some delays caused by the paucity of laborers at project sites and the Covid'19-triggered lockdowns. H1 FY22 capex was Rs9.02bn (FY21 ~ Rs17.66bn); the balance would be incurred on the ongoing capacity expansion: Rs.4bn.

Fig 13 – Forthcoming plants

Plant	Capacity (m tpa)	Budgeted capex (Rs bn)	Expected commissioning
Kurnool, AP	2.25 (clinker) +1 (cement) + 12.15MW WHRS + 18MW CPP + railway siding	16	FY23*
Jayanthipuram, AP	1.5 (clinker) +27MW WHRS	7.4	FY22 #
Vishakhapatnam	1.05	2.15	Commissioned: Mar'20
Hardisarpur, Odisha	1	7.17	Commissioned: Sep'20
West Bengal	1.1	3.86	Commissioned: Sep'19

Source: Company * 2.25m tons clinker by Q3 FY22 # 1.5m tons clinker and 18MW already commissioned

These expansions, to be financed mostly through borrowings and internal accruals, would lead to business expansion in the coastal districts of AP, Odisha and West Bengal, and in the north-eastern states.

Borrowings at 31st Sep'21 (incl. current maturities) were Rs35.6bn. Soft/interest-free loans of Rs2.18bn are long-term. In Q2 FY22, the average cost of interest-bearing borrowings was 5.47% vs 6.59% in FY21.

Concall Highlights

- IHB and infrastructure demand picked up in the South, whereas infra and commercial demand in the East was intact. Demand in Kerala and West Bengal was hit by weekend lockdowns and the heavy monsoon respectively. Demand has been good in Oct'21, except for some regions (Kerala) due to the monsoon.
- The share of the East in volumes is 20-22%. Cement prices were flattish in the East, increased in TN/Kerala and were reduced in AP/Karnataka. Cement prices will rise because of high commodity prices.
- A 20% q/q rise in diesel prices led to higher freight costs. The share of rail rose to 11% (from 8% a year ago). The average lead distance was 304km, up 5% y/y. Consumption of purchased clinker was 'nil' in Q2.
- The grid-green-thermal power mix was 13:15:72 (12:5:83 a year back). The pet-coke, imported-coal and alternative-coal fuel-mix in Q2 FY22 was 34:28:38 (57:36:7 a year back). Power & fuel expenses are likely to rise ~15% in Q3.
- Fuel consumption in Q2 FY22 was ~\$113/ton. The spot price of pet coke in Sep'21 rose to \$250 CIF and the price of Australian coal, to \$220. Fuel shortages have been increasing. The company has fuel stocks for 3.5-4 months.
- It incurred Rs9.02bn capex in H1 FY22 and talked of spending Rs4bn in H2 FY22 and Rs5bn in FY23 on the on-going expansions. Maintenance capex will be the minimum due to structural development measures of the last 3-4 years.
- The heavy monsoon and Covid'19-related restrictions delayed the Kurnool expansion. The clinker unit is now expected to commence by Dec'21 and the cement GU by Apr'22. Capex yet to be incurred is Rs3bn-4bn.
- The company is setting up 804,000-ton dry-mortar capacity (plants: two in TN, one in Odisha, one in Vishakhapatnam) at Rs1.6bn capex by FY24.
- The 0.35m-ton modernisation of the clinker line at the Ramasamy Raja Nagar plant is expected to be complete by end-FY23 at Rs4.76bn capex. This will save Rs500m p.a. The company is seeking a suitable place in Maharashtra to set up a GU.
- Gross and net debt at 31st Sep were Rs3.56bn and Rs3.52bn. Debt rose due to the high working capital required. Delevering in FY23 will be subject to capex announced for further expansion and to WC required. The average cost of debt shrank to 5.51% (from 6.49% in FY21).
- The advertising expense budgeted for FY22 is Rs800m (~Rs350m spent in H1 FY21). The share of premium products was 21% in H1 FY22. The company does not receive any government incentives.
- It reversed a deferred tax liability of Rs3.1bn on its adoption of the new tax regime under Sec.115 BAA of the IT Act, 1961. The tax rate contracted from 34.94% in FY21 to 25.17% in FY22.
- The addition of 75m-80m tons capacity (of which, IU capacity: ~15m-20m tons) is expected in the next 24-30 months.

Valuations

Outpacing our estimates, Ramco's volumes were firm. Still, rising costs took a toll on its operating performance. While the near-term cost-rise continuing is uncertain, the greater share of green energy, plant modernisation and price hikes would provide the necessary boost. The delevering will be subject to WC needs and growth capex. We maintain our Buy rating, with a higher target price of Rs.1,226 (earlier Rs.1,205).

Change in estimates

Fig 14 – Change in estimates

(Rs m)	New		Old		Variance %	
	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
Sales	61,331	71,410	61,783	73,987	(0.7)	(3.5)
EBITDA	15,555	18,093	16,574	20,161	(6.2)	(10.3)
PAT	8,474	10,194	8,284	10,626	2.3	(4.1)

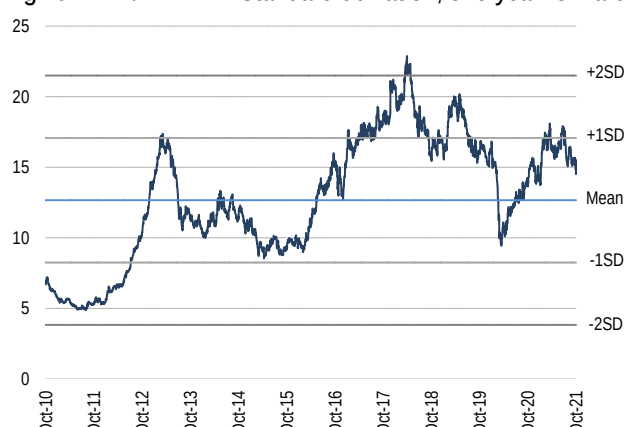
Source: Anand Rath Research

Fig 15 – EV / EBITDA band, one-year-forward



Source: Company, Anand Rath Research

Fig 16 – EV / EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rath Research

Risks

- Demand slowdown.
- Profitability may be curtailed by rising pet-coke and diesel prices.

Fig 17 – Peer comparison – Valuations

	CMP	P/E		EV / EBITDA		EV / ton (\$)	
	(Rs)	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e
Ramco Cements	1,014	28.2	23.5	17.2	14.4	189	175
Birla Corp.	1,369	17.5	14.5	10.1	8.2	85	79
Dalmia Bharat	1,954	33.1	26.1	12.7	10.9	170	165
Deccan Cements	716	8.9	8.6	4.9	5.6	52	64
Heidelberg Cements	241	18.8	15.0	10.5	9.0	109	104
India Cements	199	21.2	16.9	9.8	8.6	76	74
JK Cements	3,192	28.8	23.5	16.0	13.5	228	223
JK Lakshmi	588	14.8	12.5	7.7	6.5	82	76
Mangalam Cements	414	7.7	6.4	4.6	3.7	43	37
Orient Cements	157	10.3	9.2	5.5	5.2	59	60
Prism Johnson	119	25.3	20.2	9.6	8.3	83	79
Star Cements	100	13.9	12.5	9.1	8.3	88	90
Sanghi Industries	67	29.3	21.2	10.9	8.9	69	67

Source: Company, Anand Rathi Research

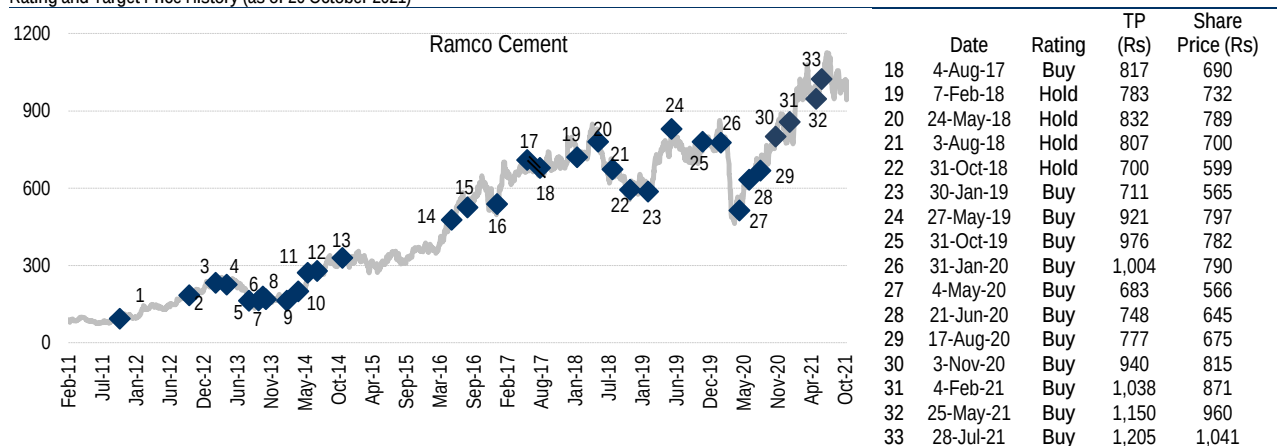
Appendix

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Rating and Target Price History (as of 26 October 2021)



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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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