

Cost pressure to stabilise; debt levels to also peak out from Q4FY22E...

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 and West Bengal. In terms of sales, South contributes ~71% of sales while East contribute 24%, which is served via grinding units in WB (2 MT) and AP (2 MT).

- The company also has 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

Q3FY22 Results: Margins eroded sharply on cost pressure; Revenues broadly remained in line with estimates.

- Revenue increased 15.3% YoY to ₹ 1,549.1 crore. Volumes were up 17.6% YoY to 3.07 MT, realisations were down 2% YoY due to monsoon impact
- Cost pressure, high base lead to margin contraction of 1472 bps YoY to 14.9%
- Net profit was also down 59% YoY to ₹ 82.6 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 17.2%. Hence, maintain **BUY** rating

Target Price and Valuation: We value Ramco at ₹ 1,130 i.e. 17x 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 FY23E onwards.
- Expect sales volume CAGR of 15.2% during FY21-23E
- Debt levels to peak out in FY22E; The company aims to become debt free in three years thereafter

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

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



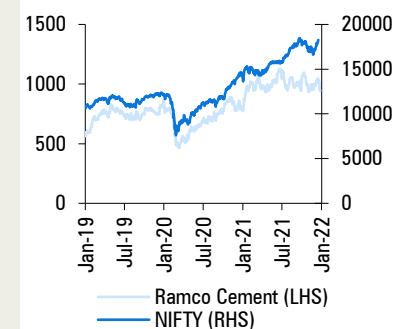
Particulars

Particulars	Amount (₹ crore)
Market Capitalisation	20615.0
Total Debt (FY21)	3102.0
Cash (FY21)	170.0
EV	23547.0
52 week H/L (₹)	884/456
Equity Capital	23.6
Face Value (₹)	1.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	42.6	42.6	42.6	42.5
FII	8.3	8.6	8.7	8.2
DII	26.6	25.7	35.1	35.7
Others	22.5	23.1	13.6	13.7

Price Chart



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	6086	7234	17.2
EBITDA	1099	1055	1147	1548	12.1	1352	1751	6.4
EBITDA (%)	25.0	20.5	21.3	29.4		22.2	24.2	
PAT	556	523	601	761	11.1	647	912	9.5
EPS (₹)	24	22	26	32		27	39	
EV/EBITDA	19.3	20.6	20.3	15.0		17.8	13.4	
EV/Tonne (\$)	196	201	182	171		177	166	
RoNW	13.7	11.7	12.2	13.5		10.3	12.7	
RoCE	10.3	8.2	7.5	8.6		7.0	8.8	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volume were up 17.6% YoY, 13.3% QoQ to 3.07 MT (better than our estimates of 2.8 MT). In terms of regions, south registered volume growth of 22% YoY (aided by lower base) while demand in the West Bengal market remained weak due to unseasonal rains, Covid restrictions, etc. Realisations were down 2% YoY to ₹ 5,046/t (lower than I-direct estimate: 5,543/t)
- EBITDA/t fell sharply 50.7% YoY, 48.3% QoQ to ₹ 752/t (far lower than I-direct estimate: ₹ 1,210/t) due to higher cost of production and low realisations. Cost of production were up 18.5% YoY (5.9% QoQ) to ₹ 4,294/t led by higher power & fuel costs (up 65% YoY, 28% QoQ to ₹ 1352/t). Freight costs were also up by 7.5% YoY, 1.1% QoQ to ₹ 1,246/t
- The average fuel consumption/tonne for Q3FY22 came in at \$149/t. The spot prices of petcoke per ton has peaked to \$250 in October 2021 and the current spot CIF price is around \$150. Similarly spot prices of imported coal softened to \$110 in December 2021 after hitting a level of \$225 in October 2021. Hence, we expect fuel prices to also settle down gradually from Q4FY22 onwards
- Average lead distance was 325 km in Q3FY22. Power mix: Thermal power 70%, Green power 15% and Grid power 15%. Fuel mix in Q3FY22 was: Coal 42%, Pet coke 37% and Alternate fuel 21%
- The company has already commissioned 18 MW of WHRS out of 27 MW at Jayanthipuram. As a result, the share of green power has increased to 15% vs. 11% last year. The balance 9 MW WHRS was commissioned in November 2021. Hence, the full benefit of 27 MW WHRS would get visible from Q4FY22 onwards

Key conference call highlights

- **Demand:** In Q3FY22, south registered volume growth of 22% YoY (aided by lower base) while demand in West Bengal market remained weak due to unseasonal rains and Covid restrictions. Expect cement prices to improve with beginning of the construction season. From mid-January 2022, prices have risen by ₹ 30-40/bag in West Bengal and ₹ 15-20/bag in Odisha and expects prices in east to further go up. Also, prices have increased by ₹ 15-20/bag in the south with increase of ₹ 30-40/bag in Kerala
- **Cost of production:** Believe costs will come down. In Q4, the cost would be lower compared to Q3. Also, focus on the green power and alternative fuels (undisclosed) to help stabilise the 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 from 18 MW to 39 MW in FY23E
- **Capex update:** The 1 MT GU, 12 MW of WHRS and 18 MW of TPP (thermal power plant) in Kurnool are expected to be commissioned in FY23. The clinking unit of 2.25 MT in Kurnool is expected to be commissioned during February 2022. The modernisation of RR Nagar plant at a cost of ₹ 476 crore by installing a new energy efficient kiln of 3000 TPD is expected to be commissioned in FY24E. After completion of this project, clinker capacity at RR Nagar will increase from 1.09 MTPA to 1.44 MTPA. With this upgradation, the management expects annual cost savings of ₹ 50 crore. The company also propose to expand the capacity of its dry mix products in Tamil Nadu, Odisha and Andhra Pradesh with the total estimated cost of ₹ 160 crore
- **Debt:** The management expects borrowings to increase by ~₹ 100 crore by the end of March 2022. Debt reduction is likely to happen after two years

Exhibit 1: Variance Analysis

Particulars	Q3FY22	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Net Sales	1,549.1	1,552.0	1,343.9	15.3	1,493.1	3.7	Unseasonal rains in East and weekend lockdown in South affected the business though lower based helped to report a growth
Total cost of production	1,318.2	1,213.2	945.7	39.4	1,099.3	19.9	
EBITDA	230.9	338.8	398.2	-42.0	393.8	-41.4	Sharp increase in th petcoke and diesel prices affected margins
EBITDA Margin (%)	14.9	21.8	29.6	-1472 bps	26.4	-1147 bps	
Reported PAT	82.6	146.0	201.5	-59.0	517.1	-84.0	
Key Metrics							
Volume (MT)	3.07	2.80	2.61	17.6	2.71	13.3	
Realisation (₹)	5,046	5,543	5,149	-2.0	5,510	-8.4	
EBITDA per Tonne (₹)	752	1,210	1,525	-50.7	1,453	-48.3	
Per tonne Analysis							
Net Sales	5,046	5,543	5,149	-2.0	5,510	-8.4	
Raw Material Expenses	681	610	673	1.3	665	2.4	
Employee Expenses	344	450	400	-14.0	404	-14.9	
Power and fuel	1,352	1,080	819	65.1	1,056	28.0	
Freight	1,246	1,250	1,159	7.5	1,233	1.1	
Others	670	943	572	17.1	698	-4.0	
Production costs	4,294	4,333	3,624	18.5	4,056	5.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,167.3	6,085.6	-1.3	7,285.8	7,234.3	-0.7	
EBITDA	1,532.3	1,352.4	-11.7	2,030.1	1,750.8	-13.8	
EBITDA Margin (%)	24.8	22.2	-262 bps	27.9	24.2	-366 bps	

Source: Company, ICICI Direct Research

Key triggers for future price performance

New capacities to bring efficiency, spur growth from FY23E onwards:

Incremental volumes from new units (2 MT already commissioned and 1 MT Odisha GU commissioned in September 2020) helped to grow faster during FY22E. 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 17.2% 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 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 thereafter:

During FY21, the company incurred ₹ 1,766 crore. In 9MFY22, the company incurred ₹ 1387 crore towards capex. Further capex of ₹ 1200 crore to be incurred over next two years to fund the ongoing capex (TPP 18 MW WHRS 21 MW, Kurnool expansion & Dry Mortar). While debt levels would rise, debt/EBITDA to broadly remain stable at ~2x. Average cost of interest on debt for the company is now reduced to 5.51% vs. 6.64% 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 the factors that helped the company to raise debt at competitive rates. We expect these factors to drive robust performance in the future as well. However, factoring the cost pressure in medium term, we cut our EBITDA estimates for FY22E and FY23E by 11.7% & 13.8% respectively. Accordingly, our target price stands revised to ₹ 1,130 from ₹ 1,200 earlier with BUY rating (valuing the company at 17x FY23E EV/EBITDA).

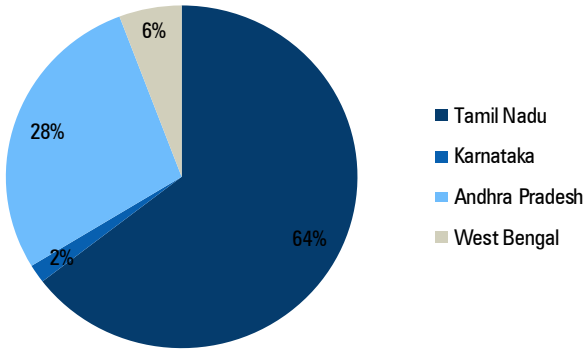
Financial story in charts

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 to be 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

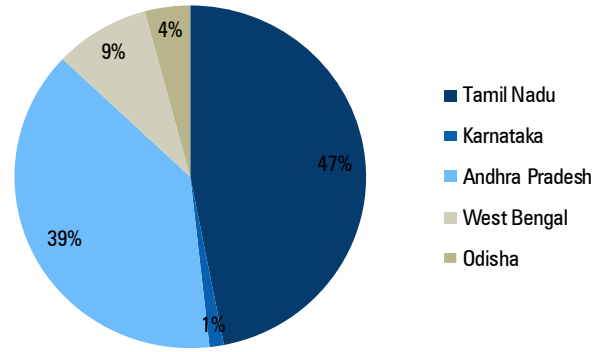
Source: Company, ICICI Direct Research

Exhibit 4: Regional capacity mix (pre-expansion)



Source: Company, ICICI Direct Research

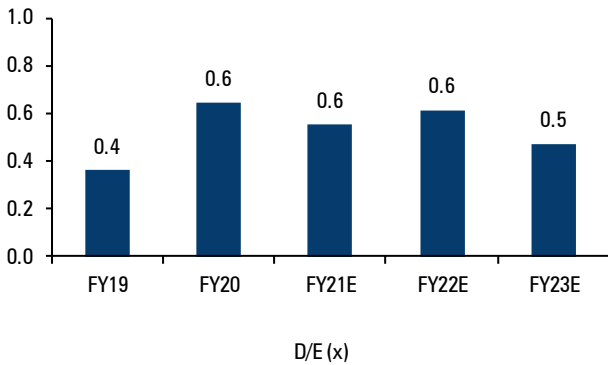
Exhibit 5: Regional capacity mix (post-expansion)



Source: Company, ICICI Direct Research

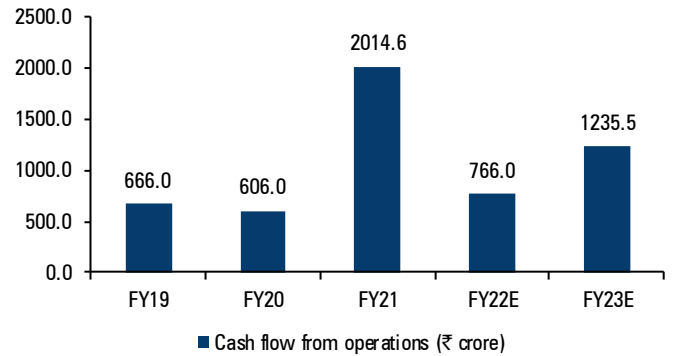
Expansion not expected to exert pressure on balance sheet

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



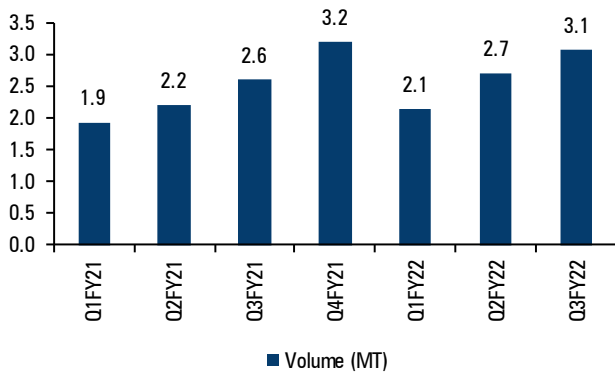
Source: Company, ICICI Direct Research

Exhibit 7: Strong operational cash flows to support growth



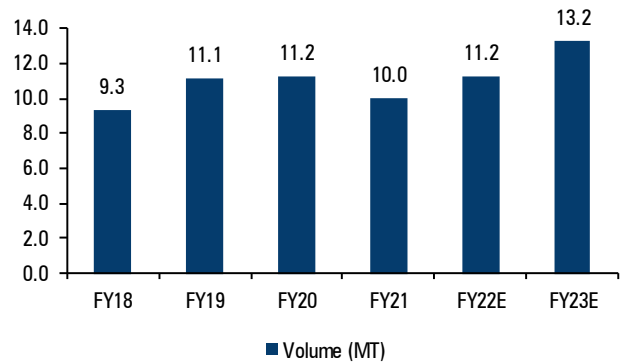
Source: Company, ICICI Direct Research

Exhibit 8: Volumes increased 17.6% YoY in Q3FY22



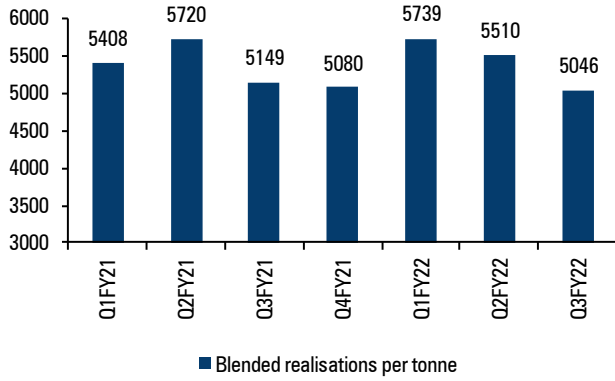
Source: Company, ICICI Direct Research

Exhibit 9: Volumes to see sharp growth from H1FY23E led by new capacity addition



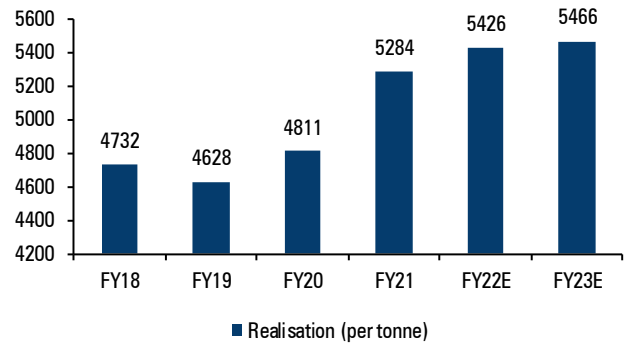
Source: Company, ICICI Direct Research

Exhibit 10: Realisations declined 2% YoY in Q3FY22 due to monsoon led weakness in the demand



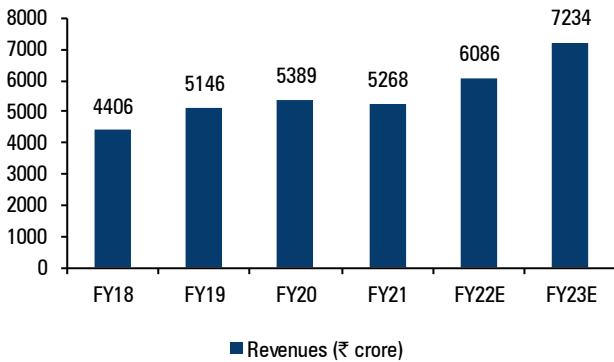
Source: Company, ICICI Direct Research

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



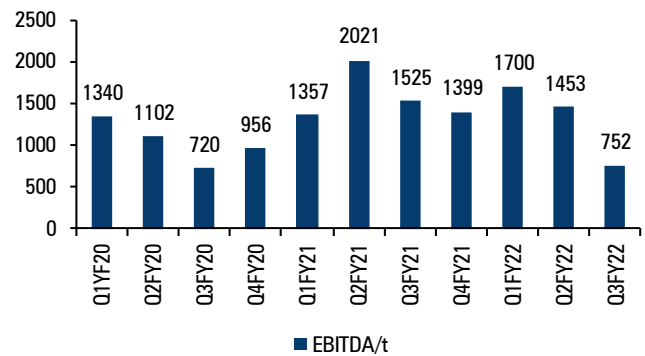
Source: Company, ICICI Direct Research

Exhibit 12: Revenues to grow at 17.2% CAGR over FY21-23E



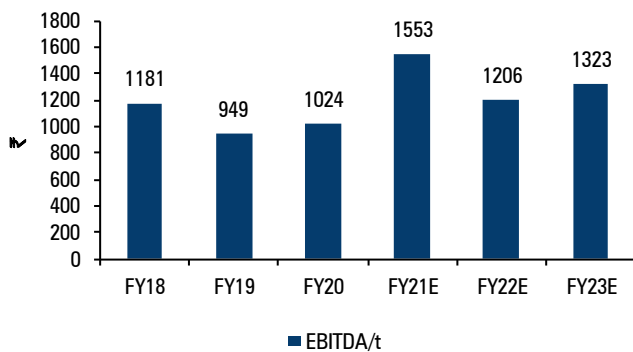
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA/t declined sharply on cost pressure and weak realisations due to unseasonal rains, festive season



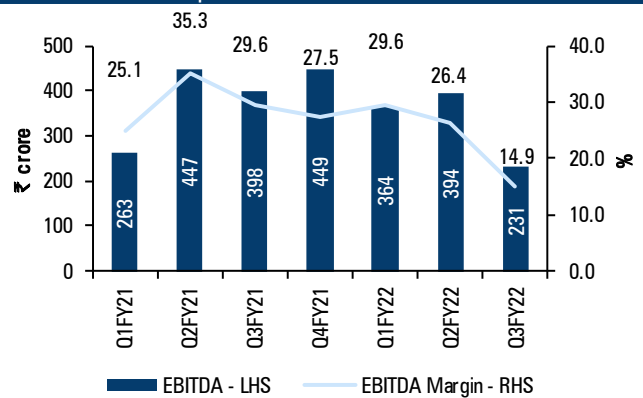
Source: Company, ICICI Direct Research

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



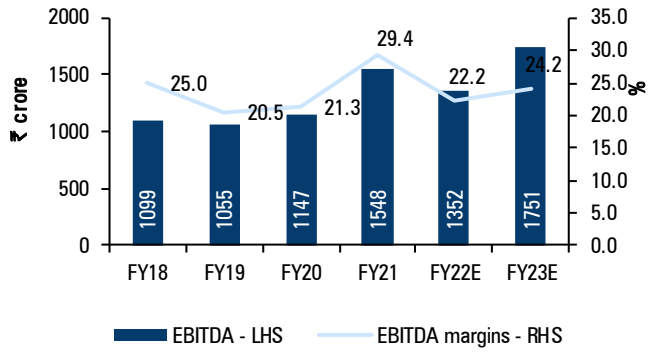
Source: Company, ICICI Direct Research

Exhibit 15: Margins decline in Q3 on lower realisations, further rise in cost pressure ...



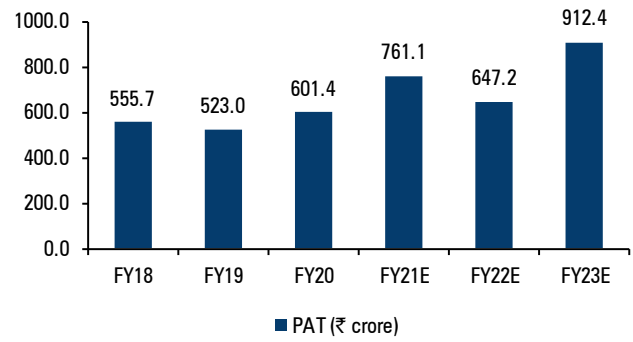
Source: Company, ICICI Direct Research

Exhibit 16: EBITDA margin to scale back to 24% by FY23E



Source: Company, ICICI Direct Research

Exhibit 17: PAT to rise on back of improving operational performance completion of major capex program



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	6,085.6	7,234.3
Growth (%)	4.7	-2.2	15.5	18.9
Raw material cost	650.7	703.5	762.7	910.8
Employee Expenses	380.6	402.1	459.9	555.9
Power, Oil & Fuel	1050.9	794.7	1323.5	1515.4
Freight cost	1360.8	1187.9	1402.0	1561.8
Other Expenses	798.9	632.2	785.1	939.7
Total Operating Exp.	4,241.9	3,720.5	4,733.3	5,483.5
EBITDA	1,147.4	1,548.0	1,352.4	1,750.8
Growth (%)	8.8	34.9	-12.6	29.5
Depreciation	316.5	355.3	396.3	457.7
Interest	72.1	87.6	121.7	105.9
Other Income	33.5	34.6	32.0	32.0
PBT	792.2	1,139.7	866.4	1,219.3
Total Tax	190.9	378.6	219.2	306.9
PAT	601.4	761.1	647.2	912.4
Adjusted PAT	601.4	761.1	647.2	912.4
Growth (%)	15.0	26.6	-15.0	41.0
EPS (₹)	25.5	32.3	27.4	38.7

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	6,250.6	7,163.0
Total Shareholders funds	4,918.6	5,627.0	6,274.2	7,186.6
Total Debt	3,162.4	3,101.7	3,850.0	3,400.0
Deferred Tax Liability	917.2	1,087.0	852.0	1,012.8
Non Current Liabilities	36.9	38.8	18.9	20.1
Total Liabilities	9,035.0	9,854.5	10,995.1	11,619.4
Assets				
Gross Block	9,581.4	10,863.6	13,639.1	14,939.1
Less: Acc Depreciation	3,767.0	4,122.3	4,518.6	4,976.3
Net Block	5,814.4	6,741.3	9,120.5	9,962.8
Capital WIP	1,840.4	2,346.2	1,050.0	200.0
Total Fixed Assets	7,654.8	9,087.5	10,170.5	10,162.8
Investments	427.5	431.9	429.7	629.7
Inventory	645.3	597.9	666.9	753.2
Debtors	500.8	375.2	466.8	555.0
Loans and Advances	29.8	27.8	36.5	43.4
Other Current Assets	695.2	689.7	651.2	774.1
Cash	91.4	141.9	68.9	130.5
Total Current Assets	1,962.4	1,832.5	1,890.3	2,256.1
Creditors	341.4	363.4	366.8	416.2
Other Current Liability	668.3	1,134.0	1,128.5	1,012.9
Total Current Liabiliti	1,009.7	1,497.5	1,495.3	1,429.1
Net Current Assets	952.8	335.0	395.0	827.0
Application of Funds	9,035.0	9,854.5	10,995.1	11,619.4

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	601.4	761.1	647.2	912.4
Add: Depreciation	316.5	355.3	396.3	457.7
(Inc)/dec in Current Assets	-196.7	165.6	-117.2	-229.5
Inc/(dec) in CL and Provisions	-115.0	487.8	-2.1	-66.2
CF from operating activit	606.0	2,014.6	766.0	1,235.5
(Inc)/dec in investment	35.4	30.2	34.3	-168.0
(Inc)/dec in Fixed Assets	-1,971.4	-1,793.4	-1,500.0	-450.0
CF from investing activit	-1,935.9	-1,763.2	-1,465.7	-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	748.3	-450.0
Dividend paid & dividend tax	-58.9	-70.7	-59.0	-59.0
Interest paid	-72.1	-87.6	-121.7	-105.9
CF from financing activit	1,328.6	-200.9	626.6	-555.9
Opening Cash	92.8	91.4	141.9	68.9
Closing Cash	91.4	141.9	68.9	130.5

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	27.4	38.7
Cash EPS	39.0	47.3	44.2	58.1
BV	208.8	238.5	266.0	304.6
DPS	2.5	3.0	2.5	2.5
Cash Per Share	3.9	6.0	2.9	5.5
Operating Ratios (%)				
EBITDA Margin	21.3	29.4	22.2	24.2
PAT Margin	11.2	14.4	10.6	12.6
Inventory days	43.7	41.4	40.0	38.0
Debtor days	35.7	26.0	28.0	28.0
Creditor days	23.1	25.2	22.0	21.0
Return Ratios (%)				
RoE	12.2	13.5	10.3	12.7
RoCE	7.5	8.6	7.0	8.8
RoIC	9.0	11.1	7.5	8.8
Valuation Ratios (x)				
P/E	33.7	26.7	31.3	22.2
EV / EBITDA	20.3	15.0	17.8	13.4
EV / Net Sales	4.3	4.4	3.9	3.2
Market Cap / Sales	3.8	3.8	3.3	2.8
Price to Book Value	4.1	3.6	3.2	2.8
Solvency Ratios				
Debt/EBITDA	2.8	2.0	2.8	1.9
Debt / Equity	0.6	0.6	0.6	0.5
Current Ratio	1.9	1.1	1.2	1.5
Quick Ratio	1.2	0.7	0.8	1.0

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (Cement)

Company	CMP			Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
ACC*	2,175	2,800		BUY	85	110	126	16.3	11.5	10.0	138	134	134	14.5	18.7	18.9	12.6	14.3	14.4
Ambuja Cem*	351	475		BUY	9	12	13	19.7	14.8	13.5	232	208	206	17.6	19.9	20.3	20.3	22.6	22.6
UltraTech Cem	7,115	9,300		BUY	191	214	261	21.3	20.7	16.3	299	289	248	14.7	13.9	17.2	12.7	12.8	13.8
Shree Cement	24,500	34,500		BUY	641	672	922	26.1	23.9	18.4	307	303	296	18.2	18.0	20.9	15.2	14.0	16.3
Heidelberg Cem	221	285		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	3,380	3,950		HOLD	100	123	138	19.3	16.9	14.2	228	231	230	18.6	19.0	19.9	20.6	20.7	19.3
JK Lakshmi Cem	570	785		BUY	34	37	40	9.6	8.7	8.0	81	80	81	21.1	22.0	21.5	19.0	19.1	17.9
Star Cement	95	120		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	860	1,130		BUY	32	27	39	15.0	17.8	13.4	171	177	166	8.6	7.0	8.8	13.5	10.3	12.7
Sagar Cement	250	350		BUY	16	12	23	9.2	10.1	6.3	91	66	62	15.6	12.6	20.0	16.0	11.0	17.5

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

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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