Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING Updated Feb 08, 2022				32.63
High Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

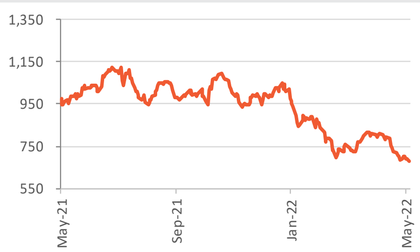
Company details

Market cap:	Rs. 16,051 cr
52-week high/low:	Rs. 1,131 / 671
NSE volume: (No of shares)	9.0 lakh
BSE code:	500260
NSE code:	RAMCOCEM
Free float: (No of shares)	13.6 cr

Shareholding (%)

Promoters	42.3
FII	7.6
DII	36.0
Others	14.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-15.7	-11.5	-31.6	-30.2
Relative to Sensex	-11.6	-11.1	-24.6	-37.3

Sharekhan Research, Bloomberg

The Ramco Cements Ltd

Healthy operational performance amid challenges

Cement	Sharekhan code: RAMCOCEM		
Reco/View: Buy ↔	CMP: **Rs. 679**	Price Target: **Rs. 850** ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We maintain a Buy on The Ramco Cements Limited (Ramco) with a revised PT of Rs. 850, lowering our valuation multiple to factor in sustained volatility in energy costs.
- The company reported marginally lower than expected revenues although operational profitability was better than expected for Q4FY2022. It witnessed decent demand growth post Q4FY2022 till date.
- The management expects minimum 10-15% y-o-y volume growth along with higher premium product sales contribution for FY2023. It would have to further hike prices to surpass EBITDA/tonne of Rs. 1300 at current cost of production.
- The capacity expansion plans largely remain on track. The company to incur a Rs. 1350 crore capex over two years.

The Ramco Cements Limited (Ramco) reported marginally lower-than-expected standalone revenues while better than expected operational profitability for Q4FY2022. Standalone revenues for Q4FY2022 were up 4.8% y-o-y led by higher blended realizations (up 5.2% y-o-y) while volumes dipped 0.7% y-o-y (heavy monsoon in South India during January and early February along with conscious lower sales in East owing to weak pricing environment). Blended EBITDA/tonne of Rs. 880 (down 36% y-o-y) was better than our expectation of Rs. 750/tonne owing to higher than expected realisations during the quarter. Standalone operating profit/net profit declined by 34%/42% y-o-y at Rs. 295 crore/Rs. 124 crore, which were higher than our expectation. The company expects a minimum 10-15% y-o-y growth in volumes for FY2023 along with a rise in premium sales mix (30% versus 22% in FY2022). Ramco has five months of committed inventory of fuel while it would require further price increase of Rs. 40/bag to surpass Rs. 1300 EBITDA/tonne.

Key positives

- Blended realisations were up 5.2% y-o-y and 3.9% q-o-q led by geography sales mix and higher premium product contribution.
- Blended EBITDA/tonne at Rs. 880 was better than expectation led by higher realizations.

Key negatives

- Cement volumes declined 0.7% y-o-y for Q4FY2022 owing to heavy rains in South during January and early February along with conscious decision to lower sales in East owing to weak pricing environment.
- Interest expenses rose 32% q-o-q to Rs. 33.4 crore for Q4FY2022.

Management Commentary

- The management expects a minimum 10-15% y-o-y volume growth for FY2023. Premium product share is expected to rise to 30% in FY2023 versus 22% in FY2022.
- Volume offtake for Q1FY2023 is expected to surpass 3 MT owing to healthy dispatches witnessed during April and May 2022.
- It commenced clinker trial production at Kurnool taking total clinker capacity to 13.65 MTPA. The 6MW WHRS along with 1 MTPA cement unit at Kurnool would commission by June-July 2022 taking cement capacity to over 20 MTPA.
- The 1 MTPA grinding unit in Karnataka at a capex of Rs. 300-350 crore would come on stream in FY2024. It is yet to finalise location for Maharashtra expansion.

Revision in estimates – We have revised our estimates downwards for FY2023 factoring lower OPM and have fine tuned estimates for FY2024.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 850: We expect Ramco to benefit from improving demand and pricing environment in the Eastern and Southern regions. The commissioning of its clinker capacities would aid in capturing growth in Eastern region. However, the company would have to increase cement prices like its peers, if energy costs remain high going ahead, to improve upon its operational profitability. We remain upbeat on its regional leadership positioning and operational efficiencies which would aid in driving volume and operational profitability going ahead. Hence, we maintain Buy with a revised price target (PT) of Rs. 850 lowering our valuation multiple considering continued volatility in energy prices.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	5,268	5,980	6,972	7,887
OPM (%)	29.4	21.5	21.8	22.0
Adjusted PAT	761	893	752	909
% YoY growth	*26.6*	*17.3*	*-15.7*	*20.8*
Adjusted EPS (Rs.)	32.3	37.8	31.8	38.5
P/E (x)	21.1	18.0	21.3	17.7
P/B (x)	2.8	2.5	2.2	2.0
EV/EBITDA (x)	12.1	15.3	12.7	11.0
RoNW (%)	14.4%	14.7%	11.0%	12.0%
RoCE (%)	8.8%	9.7%	7.3%	8.1%

Source: Company; Sharekhan estimates

Higher realizations led to better than expected operational profitability

The Ramco Cements Limited (Ramco) reported marginally lower than expected standalone revenues while better than expected operational profitability for Q4FY2022. Standalone revenues for Q4FY2022 were up 4.8% y-o-y led by higher blended realizations (up 5.2% y-o-y) while volumes dipped 0.7% y-o-y (heavy monsoon in South during January and early February along with conscious lower sales in East owing to weak pricing environment). The blended EBITDA tonne of Rs. 880 (down 36% y-o-y) was better than our expectation of Rs. 750/tonne owing to higher than expected realizations during the quarter. Standalone operating profit/net profit declined by 34%/42% y-o-y at Rs. 295 crore/Rs. 124 crore, which were higher than our expectation.

Healthy demand outlook for FY2023

The management expects a minimum 10-15% y-o-y volume growth for FY2023. Premium product share is expected to rise to 30% in FY2023 versus 22% in FY2022. It witnessed decent volume growth in April and May 2022. April dispatches stood at 1 MT while May was better than that. The volume for Q1FY2023 is expected to be over 3MT. The company commissioned 2.25 MTPA clinkering unit at Kurnool in May 2022 and 6MW WHRS capacity is expected by July 2022. The 1 MTPA cement grinding facility, 6 MW of WHRS and 18 MW of TPP in Kurnool are expected to be commissioned in March 2023. The modernisation of RR Nagar plant at a cost of Rs. 620 cores by installing a new energy efficient kiln of 3000 tonnes per day (TPD) is expected to be commissioned in March 2023. The company also propose to expand the capacity of its dry mix products in Tamil Nadu, Orissa and Andhra Pradesh with the total estimated cost of Rs.160 crores to produce high value products viz - water-proofing, repair products, flooring screeds including liquid products besides other regular dry mix products.

Key Conference Call highlights

- **Guidance:** The management expects minimum 10-15% y-o-y volume growth for FY2023. Premium product share is expected to rise to 30% in FY2023 versus 22% in FY2022. It witnessed decent volume growth in April and May 2022. April dispatches stood at 1 MT while May was better than that. The volume for Q1FY2023 is expected to be over 3 MT.
- **Q4FY2022 performance:** Sales volumes for Q4FY2022 declined by 0.7% y-o-y to 31.92 lakh tonnes. Heavy monsoon in South India till January-end and conscious cut in production in the East due to low cement prices during January 2022 and early February led to lower volume for Q4FY2022. Share of premium products stood at 25-26% in Q4FY2022 versus 22%/18% in FY2022/FY2021. Lead distance was 326kms while trade: non-trade mix was 72:28 for Q4FY2022.
- **Expansion plans:** Trial production of clinker production at Kurnool started in May 2022 leading to clinker capacity of 13.65 MTPA. The 6MW WHRS and 2.25 MTPA cement capacities at Kurnool is expected by June-July 2022. Post that, its cement capacity would increase to 20 MTPA. The 6.15MW WHRS and 18MW TPP capacities will be commissioned in March 2023. The construction of a 1 MTPA grinding unit in Karnataka at a capex of Rs. 300-350 crore would start six months from now and commence production in FY2024. It is yet to finalise location for capacity addition in Maharashtra. It won limestone block in Karnataka at around 25.1% premium compared to normal premium of over 100%.
- **Capex:** Capex for FY2022 was Rs. 1816 crore. It would be incurring Rs. 1350 crore capex (including Rs. 250 crore maintenance capex) in the next two years. Capex for FY2023 is expected to be Rs. 600 crores.
- **Debt:** The gross debt stands at Rs. 3930 crore. It reduced cost of borrowings to 5.54% from 6.59%. The company would further reduce debt by Rs. 500 crore (including Rs. 200 crore reduction in working capital loan) in FY2023.
- **Fuel costs:** Blended fuel cost for Q4FY2023 was $199/tonne. Currently prices are at $225/tonne although the company has booked some shipments at $210/tonne. The company has five months inventory which comprise both in-stock and goods in transit.
- **Price hikes:** Cement prices in South and East India increased by Rs. 10-15/bag and Rs. 20/bag post Q4FY2022. At current cost of production, the company would have to increase cement price by Rs. 40/bag to reach EBITDA/tonne of Rs. 1300.
- **Link logistics:** It was previously doing last mile delivery but now it is a tech-based distributor for FMCG companies distributing to Kirana stores. The company would not be investing any amount in Link Logistics going ahead.

Results (Standalone) Rs cr

Particulars	Q4FY2022	Q4FY2021	Y-o-Y %	Q3FY2022	Q-o-Q %
Net Sales	**1709.1**	**1630.6**	**4.8%**	**1549.1**	**10.3%**
Total Expenditure	1414.0	1181.6	19.7%	1318.2	7.3%
Operating profits	**295.1**	**449.0**	**-34.3%**	**230.9**	**27.8%**
Other Income	9.9	9.9	0.4%	6.8	45.7%
EBIDTA	305.1	458.9	-33.5%	237.7	28.4%
Interest	33.4	15.2	120.2%	25.3	32.2%
PBDT	271.6	443.7	-38.8%	212.4	27.9%
Depreciation	107.5	95.8	12.2%	99.2	8.4%
PBT	**164.1**	**347.9**	**-52.8%**	**113.2**	**45.0%**
Tax	40.0	133.6	-70.0%	30.6	30.8%
Extraordinary items	0.0	0.0	-	0.0	
Reported Profit After Tax	124.1	214.4	-42.1%	82.6	50.3%
Adjusted PAT	**124.1**	**214.4**	**-42.1%**	**82.6**	**50.3%**
EPS (Rs.)	5.2	9.0	-42.1%	3.5	50.3%
			bps		**bps**
OPM	17.3%	27.5%	-1027	14.9%	237
PAT	7.3%	13.1%	-589	5.3%	193
Tax rate	24.4%	38.4%	-1399	27.1%	-265

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.

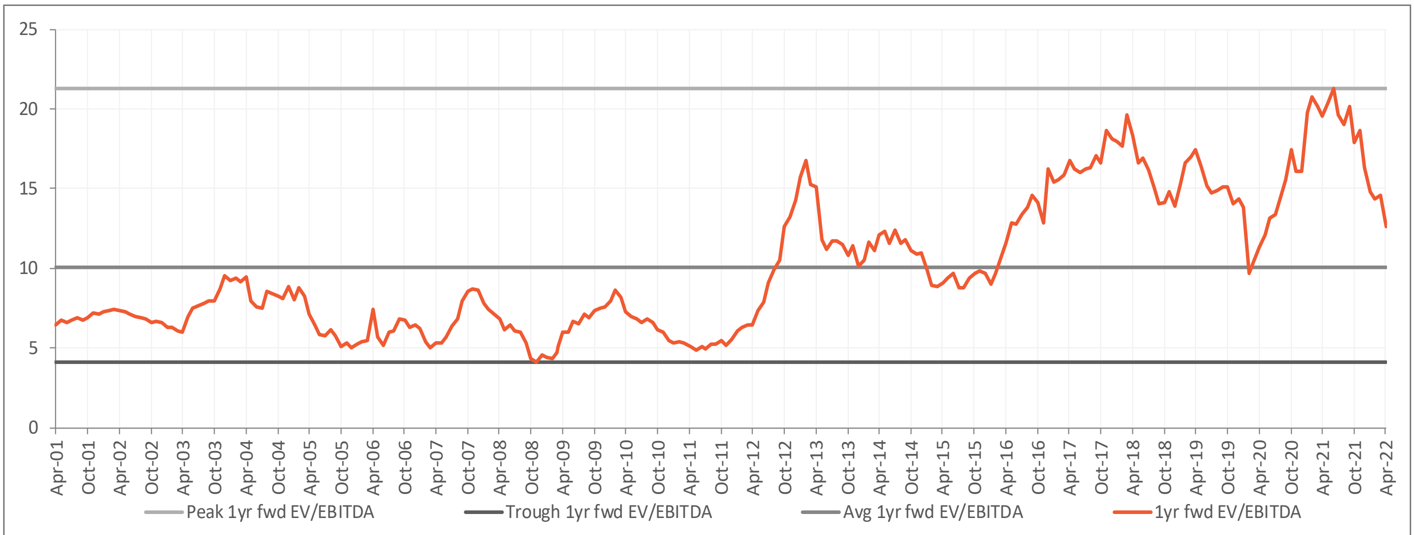
■ Company Outlook – Capacity additions expected to capture growth opportunities

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 got commissioned in May 2022 while 6MW WHRS is expected by July 2022. The 1MTPA grinding unit, a 6.15MW waste heat recovery system (WHRS), and an 18 MW thermal power plant in Kurnool are expected to be commissioned in March 2023. Its new clinker line with 3000 TPD capacity at Ramasamy Raja Nagar is expected to commission by March 2023.

■ Valuation – Retain Buy with a revised PT of Rs. 850

We expect Ramco to benefit from improving demand and pricing environment in Eastern and Southern region. The commissioning of its clinker capacities would aid in capturing growth in Eastern region. However, the company like its industry peers would have to increase cement prices if the energy costs remain at elevated levels going forward to improve upon its operational profitability. We remain upbeat on its regional leadership positioning and operational efficiencies which would aid in driving volume and operational profitability going ahead. Hence, we maintain Buy with a revised price target (PT) of Rs. 850 lowering our valuation multiple considering continued volatility in energy prices.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech	24.5	20.2	12.4	10.3	3.1	2.7	13.3	14.1
Shree Cement	32.3	27.3	16.7	14.2	4.1	3.6	13.4	14.0
The Ramco Cement	21.3	17.7	12.7	11.0	2.2	2.0	11.0	12.0
Dalmia Bharat	34.8	28.4	9.6	8.4	1.5	1.5	4.5	5.3

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, largely to be funded by internal accruals. This, along with improving cement prices, is expected to lead to healthy growth in net earnings during FY2021-FY2024.

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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