

The Ramco Cements (TRCL IN)

Rating: REDUCE | CMP: Rs802 | TP: Rs675

November 3, 2020

Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	675		660	
Sales (Rs. m)	61,249	70,423	61,080	70,229
% Chng.	0.3	0.3		
EBITDA (Rs. m)	14,048	15,806	13,858	15,529
% Chng.	1.4	1.8		
EPS (Rs.)	30.2	35.5	29.7	34.6
% Chng.	2.0	2.5		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	52,854	56,052	61,249	70,423
EBITDA (Rs. m)	10,535	15,503	14,048	15,806
Margin (%)	19.9	27.7	22.9	22.4
PAT (Rs. m)	6,103	8,715	7,126	8,359
EPS (Rs.)	25.9	37.0	30.2	35.5
Gr. (%)	13.6	42.8	(18.2)	17.3
DPS (Rs.)	2.5	3.0	3.0	3.0
Yield (%)	0.3	0.4	0.4	0.4
RoE (%)	13.0	16.3	11.7	12.3
RoCE (%)	10.5	14.5	11.0	12.3
EV/Sales (x)	4.1	3.9	3.5	2.9
EV/EBITDA (x)	20.7	13.9	15.1	13.1
PE (x)	31.0	21.7	26.5	22.6
P/BV (x)	3.8	3.3	2.9	2.6

Key Data

TRCE.BO | TRCL IN

52-W High / Low	Rs.884 / Rs.455
Sensex / Nifty	39,758 / 11,669
Market Cap	Rs.189bn / \$ 2,543m
Shares Outstanding	236m
3M Avg. Daily Value	Rs.1419.59m

Shareholding Pattern (%)

Promoter's	42.62
Foreign	7.55
Domestic Institution	23.64
Public & Others	26.19
Promoter Pledge (Rs bn)	9.18

Stock Performance (%)

	1M	6M	12M
Absolute	7.6	45.2	0.2
Relative	4.7	23.1	1.2

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Beat led by unsustainable realisations

Quick Pointers:

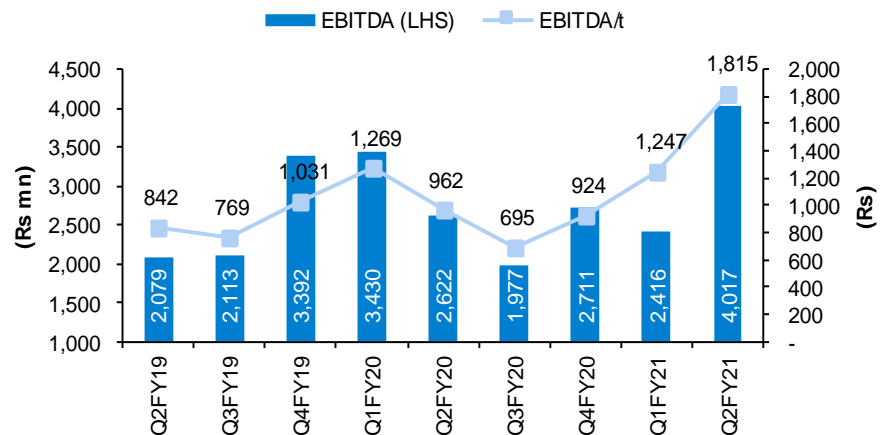
- Unexpected increase in realisations drove the beat
- Miss on volumes despite increased capacity availability
- Gross debt rose 3%/Rs0.8bn QoQ (+20%/Rs4.8bn YoY) to Rs29.2bn

The Ramco Cements (TRCL) posted Q2FY21 EBITDA 11%/45% above our and consensus estimates largely due to better than expected realisations. Realisations increased 4% QoQ/Rs215 against our estimate of 3.5%/Rs180/t QoQ fall.

We are unexcited by the strong beat in realisations in light of underlying fall in prices and likely mismatch in recognition of discounts. We expect normalization in realisations in H2 with meaningful downside risk to heightened street expectations post the results. We remain negative on Southern region due to overcapacity and volatile demand pattern. Led by improved demand, increase in competition intensity to push volumes would affect prices and margins in H2FY21. Weakness in prices during October explains the same. Most importantly, TRCL's earnings profile continued to deteriorate with increasing exposure to low margin and volatile markets of AP/Telangana and East regions. This is vindicated by narrowing gap on margins with its regional peers over last couple of years. Driven by expensive valuations and peaked out margins, we maintain Reduce rating with revised TP of Rs675 (earlier Rs660), EV/EBITDA of 13x FY22e.

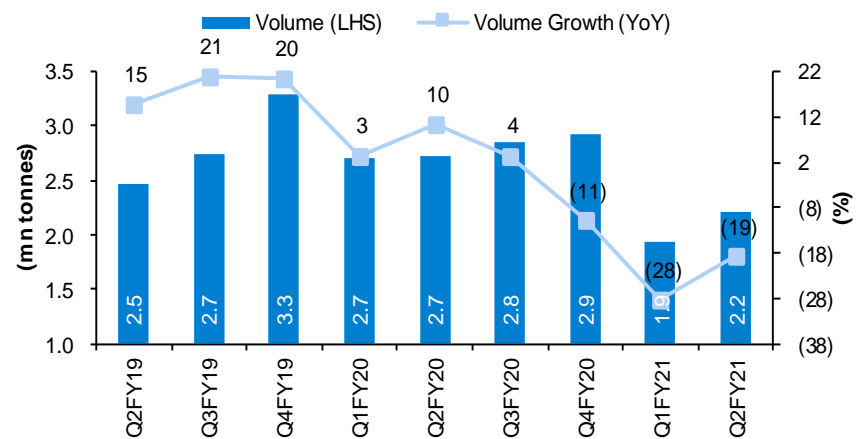
- **Beat led by higher realisations:** Despite strong demand in Tamil Nadu and Eastern region, cement volumes fell 19% YoY at 2.2mnt (PLe:2.5mnt). Realisations grew 4%/Rs215/t QoQ (+17%/Rs800/t YoY) at Rs5,500 (PLe:5,100). Company missed our estimate on cost due to higher than expected employee cost and overheads. Cost fell 1.8% YoY/Rs70 at Rs3,660 (PLe:Rs3,610). Owing to better realisations partially offset by higher costs, EBITDA/t came above our expectation at Rs1,710 (PLe:Rs1,384), up 97% YoY. Power segment EBITDA came in line with our estimates at Rs233mn (PLe:Rs215mn), down 8% YoY. Hence, EBITDA rose 49% YoY at Rs4.4bn (PLe:Rs4.0bn). Impacted by sharp increase in interest cost (+80% YoY) and higher depreciation, PAT grew 40% YoY at Rs2.36bn (PLe:Rs2.13bn).
- **Targeting completion of expansion projects by March-2021:** 1) 1.5mnt (clinker unit)/9MW Waste Heat Recovery System (WHRS) at Jayanthipuram (AP) to be commissioned by Mar-2021 2) Greenfield plant at Kurnool with 2.25mnt clinker unit/1mnt Grinding unit (GU) will commission by Mar-2021/FY22e 3) Incurred capex of Rs2.3bn/Rs6.9bn in Q2/H1 4) The pending capex on the projects under construction stands at Rs8.8bn 5) Post completion of these projects, TRCL's cement capacity would increase to 21mnt from existing 20mnt while clinker capacity would increase by 37% to 14mnt.

Exhibit 1: EBITDA/t rose sharply YoY



Source: Company, PL

Exhibit 2: Volumes remained under pressure



Source: Company, PL

Exhibit 3: Q2FY21 Result Overview

Y/e March (Rs mn)	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	12,167	12,824	(5.1)	10,234	22,401	26,309	(14.9)
Raw Material	1,615	1,997	(19.1)	1,886	3,501	4,005	(12.6)
<i>% of Net Sales</i>	<i>13.3</i>	<i>15.6</i>		<i>18.4</i>	<i>15.6</i>	<i>15.2</i>	
Staff Costs	1,102	974	13.1	975	2,076	1,858	11.7
<i>% of Net Sales</i>	<i>9.1</i>	<i>7.6</i>		<i>9.5</i>	<i>9.3</i>	<i>7.1</i>	
Power & Fuel	1,822	2,713	(32.8)	1,511	3,333	5,373	(38.0)
<i>% of Net Sales</i>	<i>15.0</i>	<i>21.2</i>		<i>14.8</i>	<i>14.9</i>	<i>20.4</i>	
Freight and selling expenses	2,162	2,698	(19.8)	2,018	4,180	5,508	(24.1)
<i>% of Net Sales</i>	<i>17.8</i>	<i>21.0</i>		<i>19.7</i>	<i>18.7</i>	<i>20.9</i>	
Other Expenses	1,449	1,821	(20.4)	1,430	2,879	3,513	(18.0)
<i>% of Net Sales</i>	<i>11.9</i>	<i>14.2</i>		<i>14.0</i>	<i>12.9</i>	<i>13.4</i>	
Total Expenditure	8,150	10,202	(20.1)	7,818	15,968	20,258	(21.2)
EBITDA	4,017	2,622	53.2	2,416	6,433	6,052	6.3
<i>Margin (%)</i>	<i>33.0</i>	<i>20.4</i>		<i>23.6</i>	<i>28.7</i>	<i>23.0</i>	
Depreciation	855	765	11.6	844	1,699	1,523	11.5
Other income	486	435	11.6	285	771	870	(11.4)
EBIT	3,649	2,292	59.2	1,856	5,505	5,399	2.0
Interest	265	147	80.0	299	565	283	99.8
PBT	3,383	2,144	57.8	1,557	4,940	5,116	(3.4)
Extraordinary income/(expense)	-	(13)		-	-	(203)	
PBT (After EO)	3,383	2,132	58.7	1,557	4,940	4,913	0.6
Tax	1,026	450	127.9	730	1,487	1,312	13.3
<i>% PBT</i>	<i>30.3</i>	<i>21.1</i>		<i>46.9</i>	<i>30.1</i>	<i>26.7</i>	
Reported PAT	2,358	1,682	40.2	827	3,454	3,601	(4.1)
Adjusted PAT	2,358	1,692	39.4	1,096	3,454	3,742	(7.7)

Source: Company, PL

Exhibit 4: Key Operating Metrics

Y/e March (Rs mn)	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Volume (mn te)-Cement	2.2	2.7	(18.8)	1.9	4.2	5.4	(23.5)
Cement Realisations (Rs/te)	5,498	4,708	16.8	5,283	5,398	4,848	11.3
Cement EBITDA/ te (Rs/te)	1,815	962	88.6	1,247	1,550	1,115	39.0

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	52,854	56,052	61,249	70,423
YoY gr. (%)	4.4	6.0	9.3	15.0
Cost of Goods Sold	8,641	8,329	9,759	11,435
Gross Profit	44,213	47,723	51,490	58,988
Margin (%)	83.7	85.1	84.1	83.8
Employee Cost	3,682	3,977	4,295	4,638
Other Expenses	8,108	7,492	8,510	9,529
EBITDA	10,535	15,503	14,048	15,806
YoY gr. (%)	8.1	47.2	(9.4)	12.5
Margin (%)	19.9	27.7	22.9	22.4
Depreciation and Amortization	3,153	3,422	4,320	4,583
EBIT	7,383	12,081	9,728	11,223
Margin (%)	14.0	21.6	15.9	15.9
Net Interest	714	1,252	1,157	971
Other Income	1,202	1,192	1,257	1,276
Profit Before Tax	7,871	12,021	9,829	11,529
Margin (%)	14.9	21.4	16.0	16.4
Total Tax	1,861	3,306	2,703	3,171
Effective tax rate (%)	23.6	27.5	27.5	27.5
Profit after tax	6,010	8,715	7,126	8,359
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,103	8,715	7,126	8,359
YoY gr. (%)	13.6	42.8	(18.2)	17.3
Margin (%)	11.5	15.5	11.6	11.9
Extra Ord. Income / (Exp)	(93)	-	-	-
Reported PAT	6,010	8,715	7,126	8,359
YoY gr. (%)	18.8	45.0	(18.2)	17.3
Margin (%)	11.4	15.5	11.6	11.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,010	8,715	7,126	8,359
Equity Shares O/s (m)	236	236	236	236
EPS (Rs)	25.9	37.0	30.2	35.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	96,250	1,12,650	1,32,050	1,33,550
Tangibles	96,250	1,12,650	1,32,050	1,33,550
Intangibles	-	-	-	-
Acc: Dep / Amortization	35,979	39,401	43,721	48,304
Tangibles	35,979	39,401	43,721	48,304
Intangibles	-	-	-	-
Net fixed assets	60,271	73,249	88,329	85,247
Tangibles	60,271	73,249	88,329	85,247
Intangibles	-	-	-	-
Capital Work In Progress	21,247	14,519	3,855	9,255
Goodwill	-	-	-	-
Non-Current Investments	2,676	2,690	2,704	2,718
Net Deferred tax assets	(9,172)	(10,374)	(11,357)	(12,510)
Other Non-Current Assets	597	597	597	597
Current Assets				
Investments	-	-	-	-
Inventories	6,453	6,911	7,551	8,682
Trade receivables	5,269	5,682	6,209	7,139
Cash & Bank Balance	914	1,985	2,087	2,573
Other Current Assets	1,722	2,381	2,223	2,299
Total Assets	1,00,470	1,09,501	1,15,269	1,20,489
Equity				
Equity Share Capital	236	236	236	236
Other Equity	48,950	57,665	64,082	71,732
Total Network	49,186	57,901	64,318	71,968
Non-Current Liabilities				
Long Term borrowings	30,241	28,741	25,241	20,241
Provisions	240	240	240	240
Other non current liabilities	128	128	128	128
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,414	3,071	3,356	3,473
Other current liabilities	8,088	9,045	10,629	11,929
Total Equity & Liabilities	1,00,470	1,09,501	1,15,270	1,20,489

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	7,872	12,021	9,829	11,529
Add. Depreciation	3,153	3,422	4,320	4,583
Add. Interest	714	1,252	1,157	971
Less Financial Other Income	1,202	1,192	1,257	1,276
Add. Other	(41)	(249)	(255)	(261)
Op. profit before WC changes	11,697	16,446	15,050	16,821
Net Changes-WC	(2,921)	(1,096)	618	(999)
Direct tax	(1,376)	(2,104)	(1,720)	(2,018)
Net cash from Op. activities	7,400	13,246	13,948	13,805
Capital expenditures	(19,193)	(9,672)	(8,736)	(6,900)
Interest / Dividend Income	155	145	146	147
Others	(283)	104	109	115
Net Cash from Invst. activities	(19,321)	(9,423)	(8,481)	(6,639)
Issue of share cap. / premium	-	-	-	-
Debt changes	14,270	(1,500)	(3,500)	(5,000)
Dividend paid	(1,564)	-	(709)	(709)
Interest paid	(580)	(1,252)	(1,157)	(971)
Others	-	-	-	-
Net cash from Fin. activities	12,127	(2,752)	(5,366)	(6,679)
Net change in cash	205	1,071	101	486
Free Cash Flow	7,400	13,246	13,948	13,805

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	12,728	13,817	10,234	12,167
YoY gr. (%)	5.5	(9.5)	(24.1)	(5.1)
Raw Material Expenses	2,371	2,361	1,886	1,615
Gross Profit	10,357	11,456	8,348	10,552
Margin (%)	81.4	82.9	81.6	86.7
EBITDA	1,977	2,711	2,416	4,017
YoY gr. (%)	(6.4)	(20.1)	(29.6)	53.2
Margin (%)	15.5	19.6	23.6	33.0
Depreciation / Depletion	797	833	844	855
EBIT	1,180	1,878	1,571	3,163
Margin (%)	9.3	13.6	15.4	26.0
Net Interest	215	216	299	265
Other Income	137	195	285	486
Profit before Tax	1,101	1,857	1,557	3,383
Margin (%)	8.7	13.4	15.2	27.8
Total Tax	153	396	461	1,026
Effective tax rate (%)	13.9	21.3	29.6	30.3
Profit after Tax	948	1,462	1,096	2,358
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	992	1,514	1,096	2,358
YoY gr. (%)	(2.8)	(19.0)	(46.6)	39.4
Margin (%)	7.8	11.0	10.7	19.4
Extra Ord. Income / (Exp)	(44)	(52)	-	-
Reported PAT	948	1,462	1,096	2,358
YoY gr. (%)	(6.2)	(11.6)	(42.9)	40.2
Margin (%)	7.4	10.6	10.7	19.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	948	1,462	1,096	2,358
Avg. Shares O/s (m)	238	238	238	238
EPS (Rs)	4.2	6.4	4.6	9.9

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	25.9	37.0	30.2	35.5
CEPS	39.3	51.5	48.6	54.9
BVPS	208.8	245.8	273.0	305.5
FCF	31.4	56.2	59.2	58.6
DPS	2.5	3.0	3.0	3.0
Return Ratio(%)				
RoCE	10.5	14.5	11.0	12.3
ROIC	8.1	10.8	8.2	9.2
RoE	13.0	16.3	11.7	12.3
Balance Sheet				
Net Debt : Equity (x)	0.6	0.5	0.4	0.2
Net Working Capital (Days)	57	62	62	64
Valuation(x)				
PER	31.0	21.7	26.5	22.6
P/B	3.8	3.3	2.9	2.6
P/CEPS	20.4	15.6	16.5	14.6
EV/EBITDA	20.7	13.9	15.1	13.1
EV/Sales	4.1	3.9	3.5	2.9
Dividend Yield (%)	0.3	0.4	0.4	0.4

Source: Company Data, PL Research

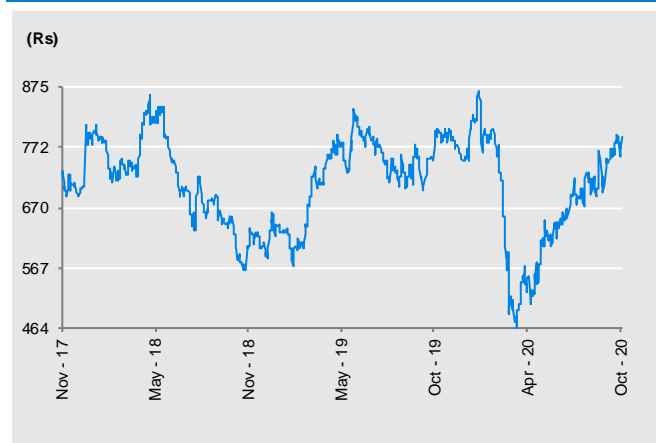
Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Volume (mn te)-Cement	11	11	12	14
Cement Realisations-Cement (Rs/te)	4,718	5,306	5,041	5,041
Cement EBITDA (Rs/te)	940	1,467	1,156	1,131
Raw material cost (Rs/te)	771	788	803	818
Power & Fuel cost (Rs/te)	938	896	938	965
Freight cost (Rs/te)	1,016	1,068	1,089	1,111

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-20	Reduce	660	756
2	21-Aug-20	Reduce	590	719
3	14-Aug-20	Reduce	590	678
4	09-Jul-20	Hold	600	646
5	22-Jun-20	Hold	600	645
6	16-Jun-20	Accumulate	630	603
7	29-Jan-20	Reduce	725	810
8	03-Jan-20	Hold	780	761

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	285	254
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Hold	195	185
5	Hindalco Industries	BUY	218	174
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	195
8	JK Lakshmi Cement	BUY	350	263
9	JSW Steel	Reduce	223	321
10	NMDC	Accumulate	98	83
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	660	756
15	Ultratech Cement	BUY	5,400	4,629

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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