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The Ramco Cements Limited

Eyeing strong bounce back in FY2022

Cement	Sharekhan code: RAMCOCEM	Result Update

Summary

- We maintain a Buy on The Ramco Cements (Ramco) with a revised PT of Rs. 1,000.
- In Q3FY21, operational performance was largely in line, while net profit lagged estimates on account of a higher tax rate. Key southern markets were hit by rains which weakened demand.
- A couple of projects got delayed led by COVID-related challenges; Capex of Rs. 537 crore remaining for ongoing expansions.
- Ramco would benefit from healthy pricing discipline in South India while demand is likely to strongly rebound in FY2022, aided by capacity expansions.

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 861**	
Price Target: **Rs. 1,000**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

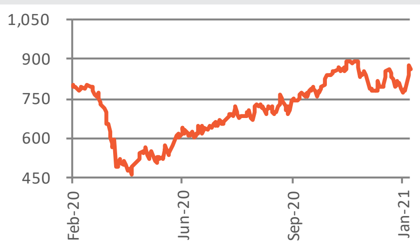
Company details

Market cap:	Rs. 20,296 cr
52-week high/low:	Rs. 903 / 456
NSE volume: (No of shares)	9.0 lakh
BSE code:	500260
NSE code:	RAMCOCEM
Free float: (No of shares)	13.5 cr

Shareholding (%)

Promoters	42.6
FII	8.0
DII	26.3
Others	23.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.8	2.9	25.3	7.1
Relative to Sensex	3.5	-20.8	-8.0	-16.1

Sharekhan Research, Bloomberg

For Q3FY2021, The Ramco Cements (Ramco) reported largely in-line operational performance, while net profit lagged estimates on account of a higher effective tax rate (ETR). Standalone revenues rose by 4.8% y-o-y (up 6.5% q-o-q) to Rs. 1339 crore led by a 12.7% y-o-y rise in blended realisations on account of higher cement prices y-o-y in South India. Cement volumes declined by 8% y-o-y to 2.6 million tonnes (although better than our estimate) as it faced weak demand in key Southern states owing to extended and above normal monsoon. However, the company registered good growth in Eastern regions. EBITDA per tonne more than doubled to Rs. 1,432 (down 15% q-o-q) led by higher realisations and lower power & fuel costs (down 10% y-o-y on per tonne basis owing to low cost inventory base for petcoke) and a fall in other expenses (of 18% y-o-y led by the company's austerity measure). Hence, operating profit rose 96% y-o-y to Rs. 397 crore. Strong OPM and lower other expense led to a net profit growth of 112% y-o-y to Rs. 201 crore (lower than our estimates on account of a higher ETR). With regards to capacity expansions, its clinker units of 1.5 MTPA and 2.25 MTPA at Jayanthipuram and Kurnool is delayed due to COVID-led challenges and is now expected to commission during Q1FY2022 (earlier by March 2021). The 1MTPA grinding unit, a 12MW waste heat recovery system (WHRS) and an 18 MW thermal power plant in Kurnool are expected to be commissioned during FY2022. The company incurred a capex of Rs. 1166 crore during 9MFY2021 while it is left with a balance capex of Rs. 537 crore for ongoing expansions. The management expects sharp increase in volumes during FY2022. We have fine tuned our estimates factoring lower volume offtake and higher EBITDA/tonne for FY2021-FY2023E. Ramco is trading at an EV/EBITDA of 14.2x/12.4x its FY2022E/FY2023E earnings, which we believe leaves room for a further upside. Hence, we maintain a Buy rating with a revised price target (PT) of Rs. 1000.

Key positives

- Volume offtake better-than-expected led by growth in Eastern region.
- Management guides for a strong volume growth in FY2022.

Key negatives

- Demand in South affected by extended and above-normal monsoon.
- A couple of expansion projects were delayed due to COVID-related challenges.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1000: We expect Ramco to benefit from strong pricing discipline in South India, while demand is expected to pick up sharply during FY2022. The company continues to maintain cost-efficient structure leading to enhanced operational profitability. The ongoing expansion plans provide ample room for future growth. The company's balance sheet is expected to remain strong despite its aggressive expansion plans. We have fine-tuned our estimates, factoring a lower volume offtake and higher EBITDA/tonne for FY2021-FY2023E. Ramco is trading at an EV/EBITDA of 14.2x/12.4x its FY2022E/FY2023E earnings, which we believe leaves room for a further upside. Hence, we maintain a Buy rating with a revised price target (PT) of Rs. 1,000.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	5,368	5,185	6,004	6,698
OPM (%)	21.2	28.6	26.4	26.0
Adjusted PAT	601	797	856	970
% YoY growth	*18.8*	*32.6*	*7.4*	*13.3*
Adjusted EPS (Rs.)	25.5	33.8	36.3	41.2
P/E (x)	33.7	25.4	23.7	20.9
P/B (x)	4.1	3.6	3.2	2.8
EV/EBITDA (x)	20.3	15.7	14.2	12.4
RoNW (%)	12.8%	15.1%	14.2%	14.1%
RoCE (%)	8.3%	9.3%	9.2%	10.0%

Source: Company; Sharekhan estimates

Operational performance remains broadly in-line with estimate

For Q3FY2021, The Ramco Cements (Ramco) reported largely in-line operational performance, while net profit lagged estimates on account of a higher effective tax rate (ETR). Standalone revenues rose by 4.8% y-o-y (up 6.5% q-o-q) to Rs. 1339 crore led by a 12.7% y-o-y rise in blended realisations on account of higher cement prices y-o-y in South India. Cement volumes declined by 8% y-o-y to 2.6 MT (although better than our estimate) as it faced weak demand in key Southern states owing to extended and above normal monsoon. However, the company registered good growth in Eastern regions. EBITDA per tonne more than doubled to Rs. 1,432 (down 15% q-o-q) led by higher realisations and lower power & fuel costs (down 10% y-o-y on per tonne basis owing to low cost inventory base for petcoke) and a fall in other expenses (of 18% y-o-y led by the company's austerity measure). Hence, operating profit rose by 96% y-o-y to Rs. 397 crore. Strong OPM and lower other expense led to a net profit growth of 112% y-o-y to Rs. 201 crore (lower than our estimates on account of a higher ETR).

Capex expenditure update

The company's ongoing capex plan of Rs. 3500 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. On capacity expansion front, its clinker units of 1.5MTPA and 2.25MTPA at Jayanthipuram and Kurnool is delayed due to COVID-led challenges and are now expected to be commissioned during Q1FY2022 (earlier March 2021). The 1MTPA grinding unit, 12MW WHRS and 18MW thermal power plant in Kurnool is expected to be commissioned during FY2022. The company incurred a capex of Rs. 1,166 crore during 9MFY2021, while it is left with balance capex of Rs. 537 crore for its ongoing expansion. The management expects sharp increase in volumes during FY2022. On completion of all the projects, the aggregate capacity at the satellite grinding units will increase to 7.3 MTPA (from 6.3MTPA and aggregate cement manufacturing capacity at the integrated cement plants will increase to 13.49MTPA (from 12.49 MTPA) taking Ramco's total cement capacity to 20.79MTPA (from 18.79MTPA) currently.

Key Conference Call highlights

- **Demand environment:** Cement demand was affected by extended monsoon in South during Q3. The Eastern region helped drive volumes. Demand in Kerala was affected by COVID-19, West Bengal witnessed growth, while overall demand in Tamil Nadu was lower, but for the trade segment, which saw growth. The prices in Odisha are still muted. The company could not supply enough clinker from its 3 million-tonne new satellite GUs in Bengal, Odisha and Vizag which is expected to change from Q2FY21.
- **Volume outlook:** The management expects a sharp increase in volume in FY2022. The clinker capacity utilization stood at 90% as against 83% in Q3FY2020. It would see couple of million tonnes in extra volumes for FY2022 with clinker capacity at both locations getting ramped up from Q2FY2022. The cement blending mix is 85%
- **Premium mix:** Premium sales mix stood at 33% in Q3 while it targets to achieve 50%. Premium products fetch higher price of Rs. 25 per bag.
- **Cost:** The company has petcoke inventories that will last till April-May. Consumption cost of petcoke stood at $80/tonne for Q3. The commissioning of WHRS in Q1FY2022 will keep fuel costs in check. It expects Rs. 130 crore per year savings from new WHRS with a payback period of 3.5 years. The petcoke mix is 70% and coal 30% in Q3 as against 85% pet coke mix in Q3FY2020. The lead distance stood at 350 km versus 320 km in Q1FY2021.
- **Leverage:** its gross debt increased by Rs. 80 crore y-o-y. It has funds receivable of Rs. 75 crore from the electric board. The current net debt is at Rs. 3,000 crore and gross debt at Rs. 3100 crore. The interest bearing loan cost decreased from 7.24% to 6.14% y-o-y. Finance cost declined q-o-q due to a decline in interest rates.
- **Capex:** Clinker expansions in both Jayanthipuram and Kurnool would be completed by March-end and in April, respectively. The Kurnool grinding unit is expected to commission by August. The current clinker capacity stands at 9 MT. The company would spend the balance capex of Rs. 537 crore through Q2FY2022. Maintenance capex is Rs. 100-150 crore.

- **Expansion:** Post commissioning of Kurnool clinker unit, work on new grinding units will start in AP, Karnataka and Maharashtra. The company has identified land. In May, it may announce a new clinker unit. It has limestone reserves only in AP and TN. Total WHRS capacity to become 39 MW post expansion.

Financials (Standalone) Rs cr

Particulars	Q3FY2020	Q3FY2020	Y-o-Y %	Q2FY2021	Q-o-Q %
Net Sales	**1339.1**	**1278.0**	**4.8%**	**1257.0**	**6.5%**
Total Expenditure	942.1	1075.1	-12.4%	815.0	15.6%
Operating profits	**397.0**	**202.9**	**95.7%**	**442.0**	**-10.2%**
Other Income	6.4	8.5	-24.9%	8.3	-23.7%
EBIDTA	403.3	211.3	90.9%	450.3	-10.4%
Interest	16.0	21.5	-25.6%	26.5	-39.7%
PBDT	387.4	189.8	104.1%	423.8	-8.6%
Depreciation	89.6	79.7	12.5%	85.5	4.9%
PBT	**297.7**	**110.1**	**170.3%**	**338.3**	**-12.0%**
Tax	96.4	15.3	528.3%	102.6	-6.0%
Extraordinary items	0.0	0.0	-	0.0	-
Reported Profit After Tax	201.4	94.8	112.4%	235.8	-14.6%
Adjusted PAT	**201.4**	**94.8**	**112.4%**	**235.8**	**-14.6%**
EPS	8.5	4.0	112.4%	9.9	-14.6%
			BPS		**BPS**
OPMs	29.6%	15.9%	1377	35.2%	-552
PAT	15.0%	7.4%	762	18.8%	-372
Tax rate	32.4%	13.9%	1844	30.3%	206

Source: Company; Sharekhan Research

Outlook and Valuation

Sector View – Improving demand brightens outlook

The cement industry has seen sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been rising over the past five years. Amid the COVID-19 led disruption, the cement industry continued to witness healthy demand from the rural sector, while infrastructure demand is expected to pick up from Q3FY2021, as labourers return to project sites. 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 plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

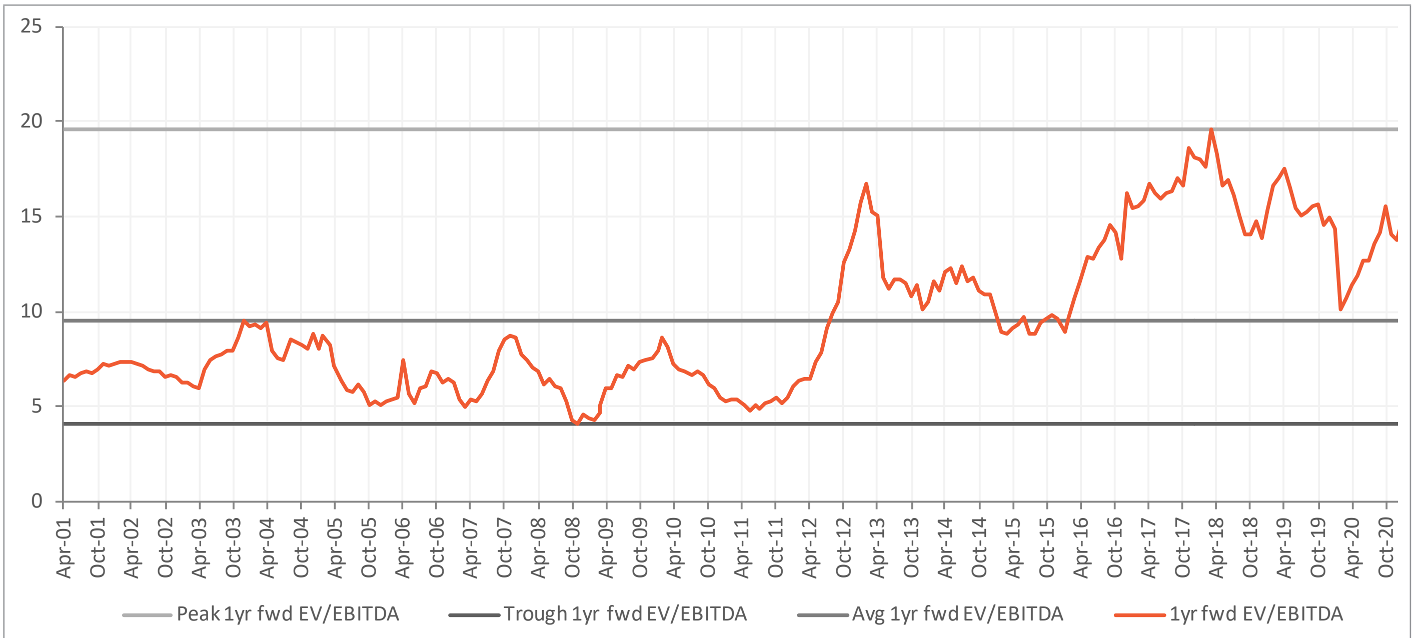
Company Outlook - Expect strong demand bounce back in FY2022

The COVID-19 led disruption lowered capacity utilisation during Q1FY2021 for Ramco, in line with the industry. Q2FY2021 and Q3FY2021 were affected by COVID-led restrictions and heavy rainfall in key southern markets. However, we expect cement demand to rebound in FY2022. Further, cement prices rose steeply in the key southern region in Q1FY2021, which should help in maintaining strong operational profitability going ahead. Hence, overall, we believe the improvement in demand environment along with healthy pricing discipline in the Southern region is expected to benefit Ramco during FY2022.

Valuation - Retain Buy with a revised PT of Rs. 1000

We expect Ramco to benefit from strong pricing discipline in South India, while demand is expected to pick up sharply during FY2022. The company continues to maintain cost-efficient structure leading to enhanced operational profitability. The ongoing expansion plans provide ample room for future growth. The company's balance sheet is expected to remain strong despite its aggressive expansion plans. We have fine-tuned our estimates, factoring a lower volume offtake and higher EBITDA/tonne for FY2021-FY2023E. Ramco is trading at an EV/EBITDA of 14.2x/12.4x its FY2022E/FY2023E earnings, which we believe leaves room for a further upside. Hence, we maintain a Buy rating with a revised price target (PT) of Rs. 1,000.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
UltraTech	32.4	27.2	15.9	13.4	3.7	3.3	12.0	12.7
Shree Cement	37.8	33.2	18.4	16.0	5.5	4.8	15.6	15.5
The Ramco Cement	23.7	20.9	14.2	12.4	3.2	2.8	14.2	14.1
JK Lakshmi Cement	13.1	10.7	5.3	4.4	1.8	1.6	14.8	15.7

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 anddry 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 19.6mtby FY2020, largely to be funded by internal accruals. This, along with improving cement prices, is expected to lead to healthy growth in net earnings during FY2019-FY2022.

Key Risks

- Correction in cement prices in south and/or sharp upward movement in power andfuel 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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