Ramco Cements (RAMCEM)

CMP: ₹ 640 | Target: ₹ 735 (15%) | Target Period: 12 months | HOLD

May 25, 2022

Result Update

Cost pressure to stay elevated; debt levels to peak out...

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 cost efficient player in south India

Q4FY22 Results: Lower base and better-than-expected realisations led to sequential improvement in the performance.

- Revenues improved 10.3% QoQ to ₹1709.1 crore. Volumes were up 4% QoQ (down 0.6% YoY). Realisations were up 6.1% QoQ, 5.4% YoY
- Cost pressure and high base lead to margin contraction of 1027 bps YoY to 17.3 while it improved sequentially by 237 bps
- Net profit grew 50.3% QoQ to ₹124.1 crore although it was down 42% YoY

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 capex, debt levels would peak-out. However, near-term cost challenges to keep check on margins. Hence, we downgrade our rating from BUY to **HOLD**

Target Price and Valuation: We value Ramco at ₹ 735 i.e.12x FY24E EV/EBITDA

Key triggers for future price performance:

- Incremental volumes from new units (1 MT GU, & 2.25 MT clinker unit in Kurnool) would help to grow the business from FY23E onwards
- Expect sales volume CAGR of 12.2% during FY22-24E
- Debt levels to peak out in FY22. 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 UltraTech.

- It is a market leader with strong brand in the retail segment
- BUY with a target price of ₹ 8,000/share

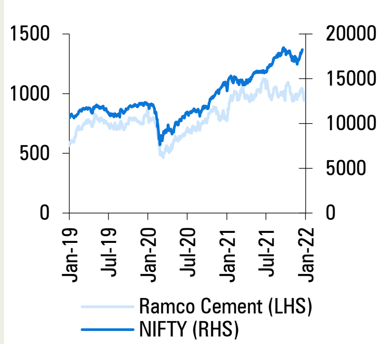
Particulars

Particulars	Amount (₹ crore)
Market Capitalisation	15078.4
Total Debt (FY22)	3930.0
Cash (FY22)	204.0
EV	18804.4
52 week H/L (₹)	1132/652
Equity Capital	23.6
Face Value (₹)	1.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	42.6	42.6	42.5	42.3
FII	8.6	8.7	8.2	7.6
DII	25.7	35.1	35.7	36.0
Others	23.1	13.6	13.7	14.0

Price Chart



Key risks

- Any delay in commissioning of new capacities
- Volatility in prices of key inputs like coal/petcoke

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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	5146	5389	5268	5980	5.1	6981	7822	14.4
EBITDA	1055	1147	1548	1284	6.8	1283	1680	14.4
EBITDA (%)	20.5	21.3	29.4	21.5		18.4	21.5	
Adjusted PAT	523	601	761	587	3.9	585	873	21.9
EPS (₹)	22	26	32	25		25	37	
EV/EBITDA	15.7	15.8	11.6	14.6		14.5	10.7	
EV/Tonne ($)	153	142	133	139		131	121	
RoNW	11.7	12.2	13.5	9.0		8.2	10.9	
RoCE	8.2	7.5	8.6	8.9		5.7	7.8	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volume were up 4% QoQ, to 3.19 MT (down 0.6% YoY) while lower base helped realisations to move up by 6.1% QoQ to ₹5354/t (better than I-direct estimate: ₹ 5225/t). In Q3 cement prices had corrected sharply due to weak demand led by unseasonal rains/floods
- EBITDA/t increased 23% QoQ to ₹925/t that was aided by better realisations while it was down 34% YoY due to increased cost pressure. Wind power generated EBITDA loss of ₹ 2.5 crore in Q4. For FY22E, wind power EBITDA increased 19% YoY to ₹ 37.3 crore
- On the cost front, power & fuel cost was up 89.6% YoY to ₹ 1462/t. Blended fuel cost per tonne came in at $199/t for Q4 and $143/t for FY22 vs. current spot rate of $240/t
- Net profit came in at ₹ 124.1 crore (down 42.1% YoY, up 50.3% QoQ). This was better than our estimated net profit of ₹ 113 crore due to better margins

Key conference call highlights

- **Demand in Q4**: Unseasonal rains in South till January 2022 and weak demand in East led to volume de-growth during Q4FY22. The current monthly offtake is over 1 MT. Given this, volume offtake for Q1FY23E is likely to be over 3 MT
- **Demand outlook**: For FY23E, the management has given volume growth guidance of 13-15% led by expected strong traction in Eastern region. The share of premium product to increase to 30% in FY23 vs 22% in FY22
- **Fuel cost**: Blended fuel cost for Q4FY22 was at $199/t. Current fuel cost is at $225/tonne for Ramco. The company has also booked some shipments at $210/tonne also. The company holds four to five months of inventory
- **Focus on green power**: With commissioning of third WHRS boiler in April 2022, entire WHRS capacity of 27 MW in Jayanthipuram is fully operational. It has helped moderate overall power & fuel cost to some extent. Share of green power is now at 16% vs 11% last year. This will further rise to 20% by raising WHRS capacity from 27 MW to 39 MW in FY23E
- **Cement Prices**: Cement prices in South and East region are higher by ₹ 10-15/bag and ₹ 20/bag respectively. At current cost, the cement prices need to further increase by ₹40/bag to achieve EBITDA/t of ₹1300/t
- **Capex update:** Trial production of clinker unit at Kurnool (2.25 MT), is going on. With this, clinkering capacity is now at 13.65 MT. The cement grinding facility (1 MT), 6 MW of WHRS in Kurnool will be commissioned in June, July 2022, respectively. After that, cement capacity will cross 20 MT. Balance 6 MW of WHRS, 18 MW of TPP will be commissioned in March 2023. Further, it aims to commission a new 1 MT GU in Karnataka by FY24E at a capex of ~₹ 350 crore. It also plans to set up a grinding unit in southeast Maharashtra, the land for the same is yet to be finalised
- **Focus on the premium products:** Ramco plans to expand the capacity of its dry mix products in Tamil Nadu, Odisha, Andhra Pradesh with total estimated cost of ₹ 160 crore. The two units in Tamil Nadu will be commissioned in FY23 and remaining two at AP, Odisha in FY24
- **Capacity upgradation:** 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 FY23E. After completion of this project, the clinker capacity at RR Nagar will increase from 1.09 MTPA to 1.44 MTPA. With this upgradation, management expects annual cost savings of ₹ 50 crore
- **Capex/debt:** Capex for FY22 was at ₹ 1816 crore. To incur capex of ₹ 1350 crore (including maintenance capex ₹ 250 crore) in next two years. Capex for FY23E likely be ₹ 600 crore. Gross debt was at ₹ 3930 crore. Debt to reduce by ₹ 500 crore in FY23E. Current cost of borrowing is at 5.54% vs. 6.59% last year

Exhibit 1: Variance Analysis

Particulars	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Net Sales	1,709.1	1,721.8	1,630.6	4.8	1,549.1	10.3	
Total cost of production	1,414.0	1,453.1	1,181.6	19.7	1,318.2	7.3	
EBITDA	295.1	268.6	449.0	-34.3	230.9	27.8	
EBITDA Margin (%)	17.3	15.6	27.5	-1027 bps	14.9	237 bps	
Reported PAT	124.1	113.0	214.4	-42.1	82.6	50.3	
Key Metrics							
Volume (MT)	3.19	3.30	3.21	-0.6	3.07	4.0	Unseasonale rains during Jan-Feb impacted sales volume
Realisation (₹)	5,354	5,225	5,080	5.4	5,046	6.1	
EBITDA per Tonne (₹)	925	815	1,399	-33.9	752	23.0	

Per tonne Analysis	Q4FY22	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Net Sales	5,354	5,225	5,080	5.4	5,046	6.1
Raw Material Expenses	652	700	728	-10.5	681	-4.3
Employee Expenses	295	328	295	0.1	344	-14.2
Power and fuel	1,462	1,422	771	89.6	1,352	8.2
Freight	1,291	1,280	1,282	0.7	1,246	3.6
Others	730	680	605	20.7	670	8.9
Production costs	**4,430**	**4,410**	**3,681**	**20.3**	**4,294**	**3.2**

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	Comments
Revenue	6,767.3	6,981.4	3.2	NA	7,821.9	NA	
EBITDA	1,332.3	1,282.5	-3.7	NA	1,679.5	NA	
EBITDA Margin (%)	19.7	18.4	-132 bps	NA	21.5	NA	

Source: Company, ICICI Direct Research

Key triggers for future price performance

New capacities to bring efficiency and 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 in FY21-22. 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 14.4% revenue CAGR during FY22-24E. 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 FY22 and 12 MW in FY23E) would bring efficiencies going forward (likely cost savings of ₹ 130 crore per annum)

Debt levels peak out in FY22; aims to become debt free in three years thereafter: During FY22, the company has incurred ₹1816 crore. Further capex of ₹1350 crore to be incurred over next two years to fund the ongoing capex (TPP 18 MW WHRS 12 MW, Kurnool expansion & Dry Mortar). While debt levels have increased in FY22 with debt/EBITDA reaching to 3.1x, the likely debt repayment of ₹500 crore, lower capex and incremental cash flow from new capacities would help in bringing down Debt/EBITDA to below 2.0x by FY24E. Average cost of interest on debt for the co is now reduced to 5.51% vs 6.64% earlier. This is much lower than RoCE. So once entire 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 FY23E by 3.7% and also reduce our target valuation multiple. Accordingly, our TP is revised to ₹ 735 with HOLD rating (valuing the company at 12x FY24E EV/EBITDA)

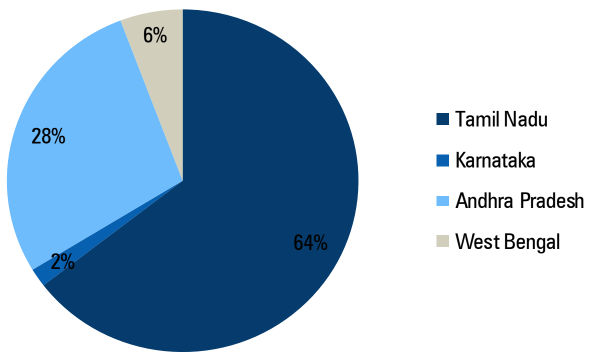
Financial story in charts

Exhibit 3: Capacity addition timeline

Integrated unit	FY19	FY20	FY21	FY22	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 tobe 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**

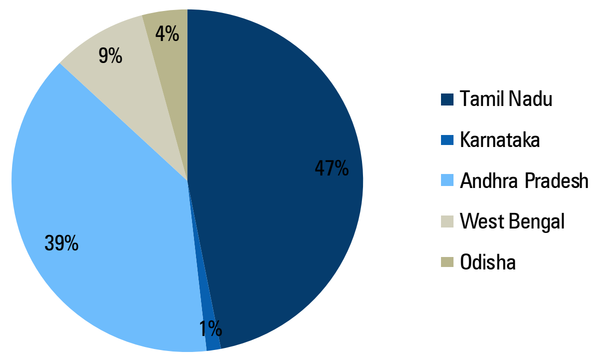
Source: Company, ICICI Direct Research

Exhibit 4: Regional capacity mix (pre-expansion)



Source: Company, ICICI Direct Research

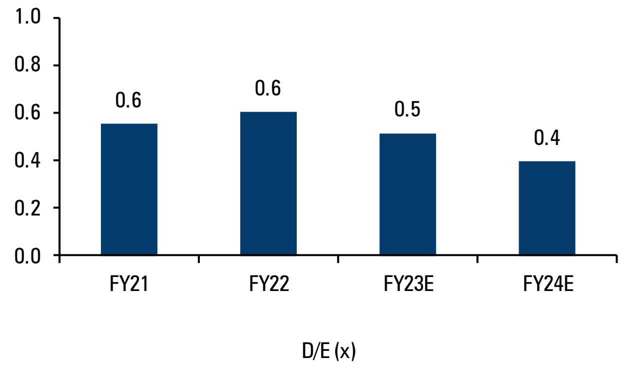
Exhibit 5: Regional capacity mix (post-expansion)



Source: Company, ICICI Direct Research

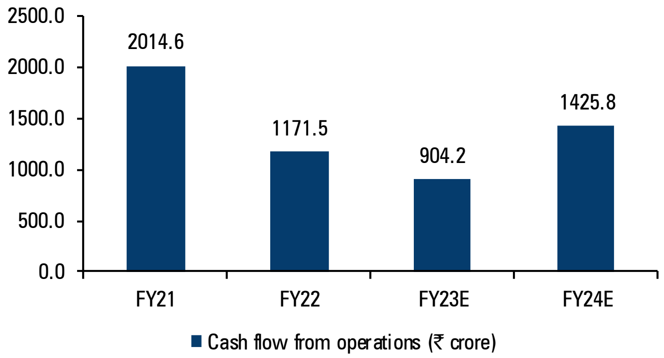
Expansion not expected to exert pressure on balance sheet

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



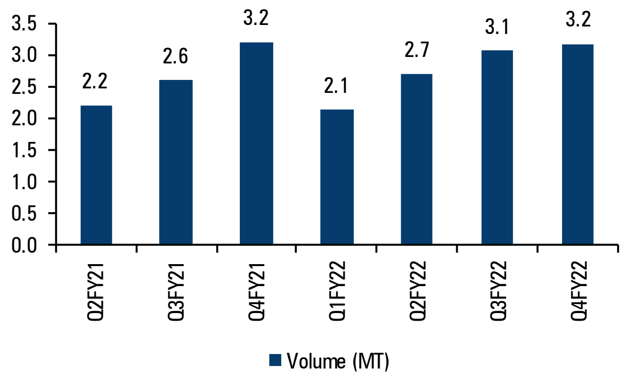
Source: Company, ICICI Direct Research

Exhibit 7: Strong operational cash flows to support growth



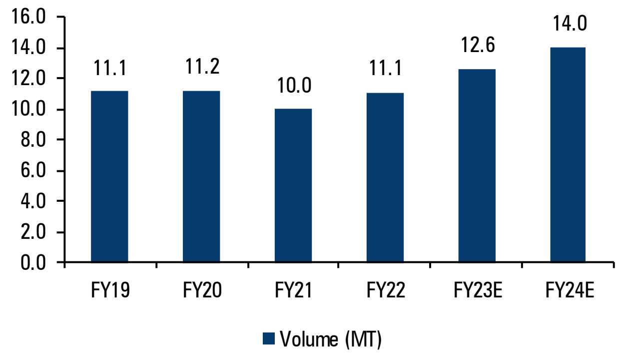
Source: Company, ICICI Direct Research

Exhibit 8: Volumes decline 0.6% YoY in Q4FY22



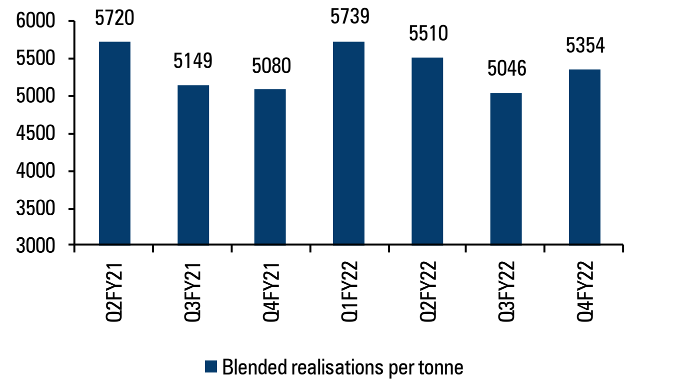
Source: Company, ICICI Direct Research

Exhibit 9: Volumes to see sharp growth from H2FY23E led by new capacity addition



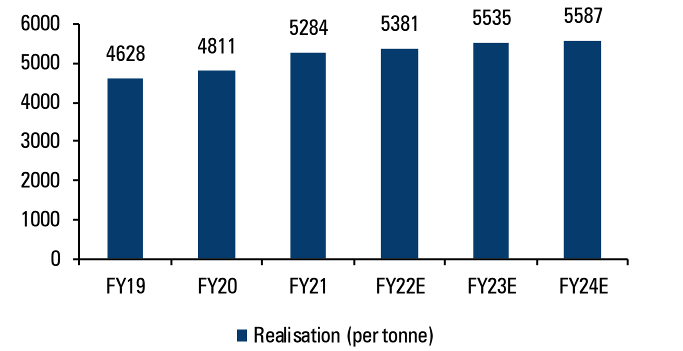
Source: Company, ICICI Direct Research

Exhibit 10: Realisations increase 5.4% YoY in Q4FY22 to offset against the rising cost pressure



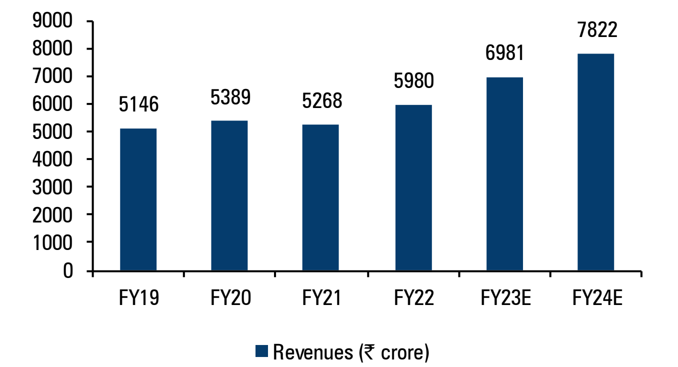
Source: Company, ICICI Direct Research

Exhibit 11: Realisations to stay firm led by underlying high cost environment



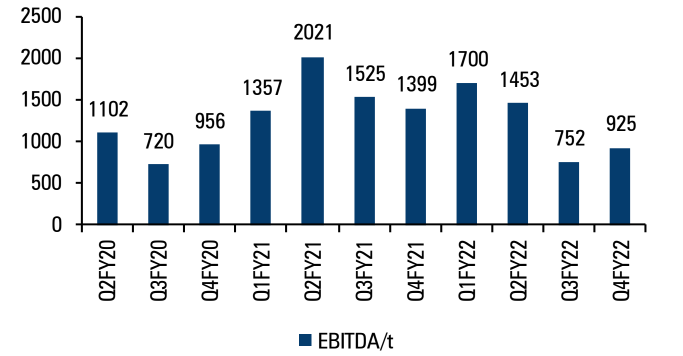
Source: Company, ICICI Direct Research

Exhibit 12: Revenues to grow at 14.4% CAGR over FY22-24E



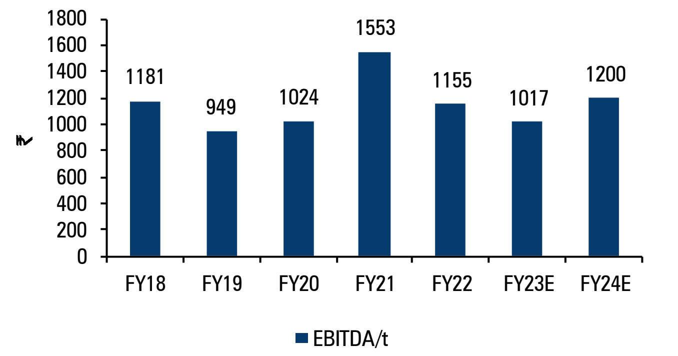
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA/t decline YoY on rising cost pressure



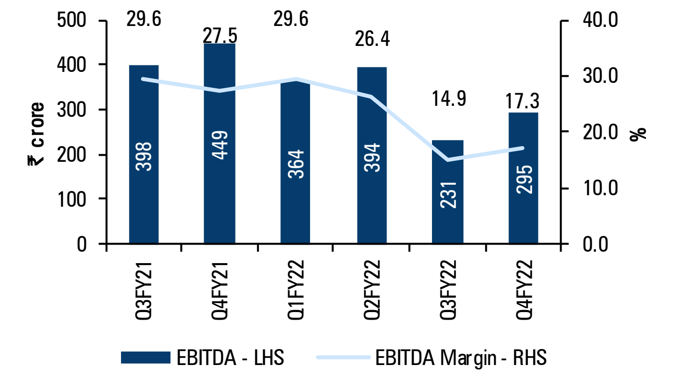
Source: Company, ICICI Direct Research

Exhibit 14: Expect EBITDA/t to moderate due to cost pressure; To improve in FY24E



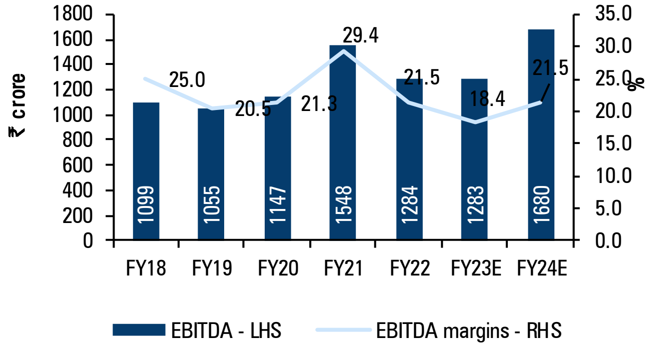
Source: Company, ICICI Direct Research

Exhibit 15: Margins declines on higher fuel prices …



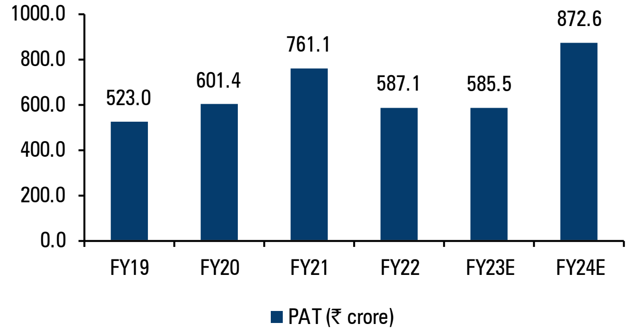
Source: Company, ICICI Direct Research

Exhibit 16: EBITDA margin to scale over 21% by FY24E



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	FY22	FY23E	FY24E
Operating Income	**5,389.3**	**5,268.4**	**5,980.0**	**6,981.4**	**7,821.9**
Growth (%)	4.7	-2.2	13.5	16.7	12.0
Raw material cost	650.7	703.5	715.5	895.5	1036.1
Employee Expenses	380.6	402.1	414.5	451.8	486.1
Power, Oil & Fuel	1050.9	794.7	1388.8	1765.9	1820.1
Freight cost	1360.8	1187.9	1389.3	1639.7	1750.1
Other Expenses	798.9	632.2	788.1	946.0	1050.1
Total Operating Exp.	4,241.9	3,720.5	4,696.1	5,698.9	6,142.4
EBITDA	**1,147.4**	**1,548.0**	**1,283.8**	**1,282.5**	**1,679.5**
Growth (%)	8.8	34.9	-17.1	-0.1	31.0
Depreciation	316.5	355.3	400.8	443.7	463.2
Interest	72.1	87.6	112.4	88.4	82.3
Other Income	33.5	34.6	30.6	32.0	32.0
PBT	792.2	1,139.7	801.2	782.4	1,166.1
Total Tax	190.9	378.6	-91.5	196.9	293.5
PAT	**601.4**	**761.1**	**892.7**	**585.5**	**872.6**
Adjusted PAT	601.4	761.1	587.1	585.5	872.6
Growth (%)	15.0	26.6	-22.9	-0.3	49.0
EPS (₹)	**25.5**	**32.3**	**37.8**	**24.8**	**36.9**

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	601.4	761.1	892.7	585.5	872.6
Add: Depreciation	316.5	355.3	400.8	443.7	463.2
(Inc)/dec in Current Assets	-196.7	165.6	-219.8	3.9	-48.9
Inc/(dec) in CL and Provisions	-115.0	487.8	227.9	-214.7	24.8
CF from operating activit	**606.0**	**2,014.6**	**1,171.5**	**904.2**	**1,425.8**
(Inc)/dec in investment	35.4	30.2	40.6	28.2	-68.0
(Inc)/dec in Fixed Assets	-1,971.4	-1,793.4	-1,898.8	-650.0	-650.0
CF from investing activit	**-1,935.9**	**-1,763.2**	**-1,858.2**	**-621.8**	**-718.0**
Issue/(Buy back) of Equity	-84.0	18.0	75.9	59.1	59.1
Inc/(dec) in loan funds	1,543.7	-60.7	828.2	-272.7	-500.0
Dividend paid & dividend tax	-58.9	-70.7	-70.8	-59.1	-59.1
Interest paid	-72.1	-87.6	-112.4	-88.4	-82.3
CF from financing activit	**1,328.6**	**-200.9**	**721.0**	**-361.1**	**-582.3**
Opening Cash	92.8	91.4	141.9	176.1	97.5
Closing Cash	**91.4**	**141.9**	**176.1**	**97.5**	**223.0**

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	23.6	23.6	23.6	23.6	23.6
Reserve and Surplus	4,895.0	5,603.4	6,501.2	7,086.7	7,959.2
Total Shareholders fun	4,918.6	5,627.0	6,524.8	7,110.3	7,982.9
Total Debt	3,162.4	3,101.7	3,930.0	3,657.3	3,157.3
Deferred Tax Liability	917.2	1,087.0	824.0	977.4	1,095.1
Non Current Liabilities	36.9	38.8	51.3	17.1	17.9
Total Liabilities	**9,035.0**	**9,854.5**	**11,330.1**	**11,762.0**	**12,253.1**
Assets					
Gross Block	9,581.4	10,863.6	12,053.9	15,237.9	16,037.9
Less: Acc Depreciatior	3,767.0	4,122.3	4,523.1	4,966.9	5,430.0
Net Block	5,814.4	6,741.3	7,530.7	10,271.0	10,607.9
Capital WIP	1,840.4	2,346.2	3,034.0	500.0	350.0
Total Fixed Assets	**7,654.8**	**9,087.5**	**10,564.7**	**10,771.0**	**10,957.9**
Investments	427.5	431.9	422.0	425.8	525.8
Inventory	645.3	597.9	833.3	765.1	814.3
Debtors	500.8	375.2	349.8	382.5	407.2
Loans and Advances	29.8	27.8	20.4	20.9	23.5
Other Current Assets	695.2	689.7	689.1	809.8	836.9
Cash	91.4	141.9	176.1	97.5	223.0
Total Current Asse	**1,962.4**	**1,832.5**	**2,068.8**	**2,075.9**	**2,304.9**
Creditors	341.4	363.4	489.2	401.7	450.0
Other Current Liability	668.3	1,134.0	1,236.1	1,109.0	1,085.4
Total Current Liabi	**1,009.7**	**1,497.5**	**1,725.3**	**1,510.7**	**1,535.5**
Net Current Assets	952.8	335.0	343.4	565.2	769.5
Application of Fun	**9,035.0**	**9,854.5**	**11,330.1**	**11,762.0**	**12,253.1**

Source: Company, ICICI Direct Research

Exhibit 21: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	25.5	32.3	37.8	24.8	36.9
Cash EPS	39.0	47.3	54.7	43.6	56.5
BV	208.8	238.5	276.1	300.9	337.8
DPS	2.5	3.0	3.0	2.5	2.5
Cash Per Share	3.9	6.0	7.5	4.1	9.4
Operating Ratios (%)					
EBITDA Margin	21.3	29.4	21.5	18.4	21.5
PAT Margin	11.2	14.4	9.8	8.4	11.2
Inventory days	43.7	41.4	50.9	40.0	38.0
Debtor days	35.7	26.0	21.3	20.0	19.0
Creditor days	23.1	25.2	29.9	21.0	21.0
Return Ratios (%)					
RoE	12.2	13.5	9.0	8.2	10.9
RoCE	7.5	8.6	8.9	5.7	7.8
RoIC	9.0	11.1	12.0	5.8	7.9
Valuation Ratios (x)					
P/E	25.1	19.8	16.9	25.8	17.3
EV / EBITDA	15.8	11.6	14.6	14.5	10.7
EV / Net Sales	3.4	3.4	3.1	2.7	2.3
Market Cap / Sales	2.8	2.9	2.5	2.2	1.9
Price to Book Value	3.1	2.7	2.3	2.1	1.9
Solvency Ratios					
Debt/EBITDA	2.8	2.0	3.1	2.9	1.9
Debt / Equity	0.6	0.6	0.6	0.5	0.4
Current Ratio	1.9	1.1	1.1	1.3	1.4
Quick Ratio	1.2	0.7	0.6	0.8	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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