Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

The Ramco Cements Ltd

Balancing expansions and leverage

Cement	Sharekhan code: RAMCOCEM
Reco/View: Buy ↔	CMP: **Rs. 752**
	Price Target: **Rs. 850** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 July 08, 2022	32.63

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

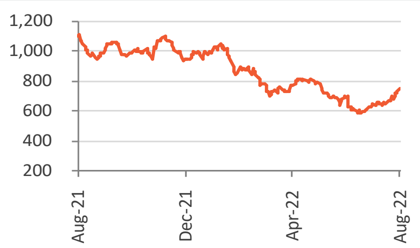
Company details

Market cap:	Rs. 17,776 cr
52-week high/low:	Rs. 1119/575
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	6.9
DII	36.8
Others	14.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.9	-4.5	-15.4	-31.3
Relative to Sensex	7.8	-6.5	-13.0	-41.1

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on The Ramco Cements Limited (Ramco) with an unchanged PT of Rs. 850.
- The company reported strong beat on net earnings for Q1FY2023 led by robust volume growth. Blended EBITDA/tonne came in better on account of higher than expected realizations and lower than anticipated costs.
- Management expects to achieve upper band of 12-15% y-o-y volume growth for FY2023. The power & fuel costs are expected to tread downwards from September.
- Capacity expansion plans continue to get delayed on account of a rise in cost of projects. However, it would not be lagging in terms of growth vis-à-vis its peers.

The Ramco Cements Limited (Ramco) reported better-than-expected standalone performance led by strong volume growth of 55% y-o-y along with marginally higher than expected realisations and lower than expected costs per tonne. Standalone revenues rose by 44% y-o-y at Rs. 1772.5 crore (blended realisations down 5.6% y-o-y & 1.5% q-o-q) with 55% y-o-y rise in volumes (aided by higher cement sales in East which comprised 30% of overall volumes as against 20% in Q4FY2022). Blended EBITDA/tonne of Rs. 782 (down 48% y-o-y) was better than our expectation of Rs. 669/tonne. Standalone operating profit/net profit declined by 17%/34% y-o-y at Rs. 301 crore/Rs. 112 crore, which were higher than our expectation. The company expects to achieve upper band of targeting a 12-15% volume growth for FY2023 while power & fuel costs are expected to tread lower from September 2022. Its clinker capacity increased to 13.65 mtpa with successful trial production from clinkering plant in Kurnool. The cement grinding unit at Kurnool is expected in August 2022 which will increase its overall cement capacity to over 20mtpa. The company did not announce its next round of capacity expansions unlike its peers but maintained that it would not lag in terms of volume growth vis-à-vis its peers.

Key positives

- Cement volumes rose 55% y-o-y supported by strong volume growth witnessed in the Eastern region.
- Blended EBITDA/tonne at Rs. 782 bettered expectations led by higher-than-estimated realisations and lower than estimated costs.

Key negatives

- Interest costs rose by 95% y-o-y at Rs. 47 crore led by increase in net debt on account of higher working capital requirement. Although, the management retained its aim to reduce net debt by Rs. 500 crore in FY2023.
- Delays in Karnataka grinding unit on want of land acquisition clearances. Location for Maharashtra yet to be decided. Expansion of two dry motor units delayed by 6-9 months.

Management Commentary

- To cover costs, the company would need a Rs. 10-15 per bag increase in cement prices, while it would require Rs. 30-35 per bag increase to improve EBITDA/tonne.
- Out of its total expansion plan of Rs. 850 crore (including Rs. 150 crore maintenance capex), it has incurred Rs. 482 crore during Q1FY2023.
- Net debt stood at Rs. 4148 crore. Average cost of borrowings increased to 5.68%. It expects to receive Rs. 100 crore of payments, which includes expected receipts from two government departments which should help achieve net debt reduction during FY2023.

Revision in estimates – We have lowered our estimates for FY2023-FY2024 factoring lower OPM led by rise in power & fuel costs.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 850: We expect Ramco to benefit from improving demand and pricing environment in the Eastern and Southern regions going ahead. 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, to improve upon operational profitability. We remain upbeat on its regional leadership positioning and operational efficiencies which would help drive volumes and operational profitability going ahead. Hence, we maintain a Buy with an unchanged price target (PT) of Rs. 850.

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	6,883	7,832
OPM (%)	29.4	21.5	17.9	20.7
Adjusted PAT	761	893	521	814
% YoY growth	26.6	17.3	-41.6	56.1
Adjusted EPS (Rs.)	32.3	37.8	22.1	34.4
P/E (x)	23.3	19.9	34.1	21.8
P/B (x)	3.2	2.7	2.6	2.3
EV/EBITDA (x)	13.2	16.6	17.3	12.9
RoNW (%)	14.4%	14.7%	7.7%	11.1%
RoCE (%)	8.8%	9.7%	5.5%	7.6%

Source: Company; Sharekhan estimates

Better than expected performance led by strong volume growth

Better-than-expected standalone performance led by strong volume growth of 55% y-o-y along with marginally higher than expected realisations and lower-than-expected costs per tonne. Standalone revenues for Q1FY2023 were up 44% y-o-y at Rs. 1772.5 crore (blended realizations fell by 5.6% y-o-y & 1.5% q-o-q) with 55% y-o-y rise in volumes (aided by higher cement sales in East which comprised 30% of overall volumes as against 20% in Q4FY2022). Blended EBITDA/tonne of Rs. 782 (down 48% y-o-y) was better than our expectation of Rs. 669/tonne. Standalone operating profit/net profit declined by 17%/34% y-o-y at Rs. 301 crore/Rs. 112 crore, which were higher than our expectations.

Growth not to lag vis-à-vis peers

The management expects to achieve upper end of 12-15% volume growth guidance for FY2023. Premium product share is expected to rise to 30% in FY2023 versus 22% in FY2022. It would not be lagging in terms of growth as compared to its peers, which have been announcing strong expansion plans till 2030. The trial production of clinker capacity at Kurnool is successful leading to increase in overall clinker capacity to 13.65 mtpa. The cement grinding capacity will be commissioned in August 2022 which will take its overall cement capacity past 20 mtpa. The 6MW WHRS capacity will be commissioned in August 2022 and balance 6.15MW in March 2023. Its 1 mtpa cement grinding unit in Karnataka is still in process of land acquisition. Consequently, it has restarted its Mattur plant which has a 2.5-lakh tonne capacity and had been closed for over three years. It has not yet finalised location for Maharashtra expansion.

Key Conference Call highlights

- **Guidance:** The management expects to achieve a 15% volume growth for FY2023. Premium product share is expected to rise to 30% in FY2023 versus 22% in FY2022. It would not be lagging in terms of growth as compared to its peers which have been announcing strong expansion plans till 2030.
- **Q1FY2023 performance:** Sales volumes rose by 55% y-o-y to 3.31 million tonnes for Q1FY2023. Share of premium products increased to 24% compared to 19% in Q4FY2022. Capacity utilisation stood at 68% compared to 44% in Q1FY2022. It saw strong growth in Eastern markets leading to increase in East volume share to 30% from ~20% in Q4FY2022. The blended EBITDA/tonne stood at Rs. 929 compared to Rs. 790/ Rs. 956 in Q3FY2022/Q4FY2022 respectively. Pressure on cement prices and higher power & fuel costs and increase in diesel prices led to lower EBITDA/tonne. Wind power generation increased 10% y-o-y to 7.71 crore units. Revenues from wind power declined by 3% to Rs. 18.77 crore while EBITDA from wind power declined by 2% y-o-y to Rs. 13.53 crore.
- **Power & fuel costs:** It maintains 4 months inventory of petcoke and coal combined including goods in transit. The current CIF petcoke price is $210 which is declining. It has also got offer of $185. The blended fuel consumption price came down to $178 from $198 in Q4FY2022 on account of purchase of cheaper coal having lower calorific value. In terms of per Kcal cost, the same remained constant q-o-q.
- **Pricing:** To cover costs, it would need Rs. 10-15 per bag increase in cement prices while to improve EBITDA/ tonne, it would require Rs. 30-35 per bag increase.
- **Capex:** Out of its total expansion plan of Rs. 850 crore (including Rs. 150 crore maintenance capex), it has incurred Rs. 482 crore during Q1FY2023.
- **Net debt:** Its net debt stood at Rs. 4148 crore, out of which Rs. 450 crores is short term. The average cost of borrowings increased to 5.68% from 5.5% in Q1FY2022. It expects to receive Rs. 100 crore of payments, which includes expected receipts from two government departments which should help reduce net debt during FY2023.
- **Kurnool expansion:** The trial production of clinker capacity at Kurnool is successful leading to increase in overall clinker capacity to 13.65mtpa. The cement grinding capacity will be commissioned in August 2022 which will take its overall cement capacity past 20mtpa. The 6MW WHRS capacity will be commissioned in August 2022 and balance 6.15MW in March 2023.
- **Karnataka expansion:** Its 1mtpa cement grinding unit in Karnataka is still in process of land acquisition. Consequently, it has restarted its Mattur plant which has 2.5 lakh tonne capacity and had been closed for over three years.

- **Maharashtra expansion:** It has not yet finalised location.
- **Wind power:** It had completed 175 MW wind power capacity for captive purpose in 2010. Since 2018, there were power cuts of 6-7 hours daily which led to it setting up thermal power plants. The cost of generation at thermal power plant is Rs. 7/unit while it is Rs. 1.5/unit for wind power. It has converted 70% of the 138MW wind power capacity for captive purpose, while it would convert another 30% for captive as against selling to grid. Consequently, the green power share will increase by 10%.
- **RR Nagar plant:** Modernisation of the plant along with limestone beneficiation plant will be commissioned in March 2023.
- **Dry mix products:** Currently, it has only one unit in Chennai. Two units in Tamil Nadu will be commissioned in FY2023 while balance two units in Andhra Pradesh & Orissa will be commissioned in FY2024. The revenue potential of each plant is Rs. 80-100 crore with an OPM of 20-30%.
- **Lead distance:** The lead distance was 301 km.

Results (Standalone) Rs cr

Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	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%
OPM	17.3%	27.5%	-1027 bps	14.9%	237 bps
PAT	7.3%	13.1%	-589 bps	5.3%	193 bps
Tax rate	24.4%	38.4%	-1399 bps	27.1%	-265 bps

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 healthy demand going ahead.

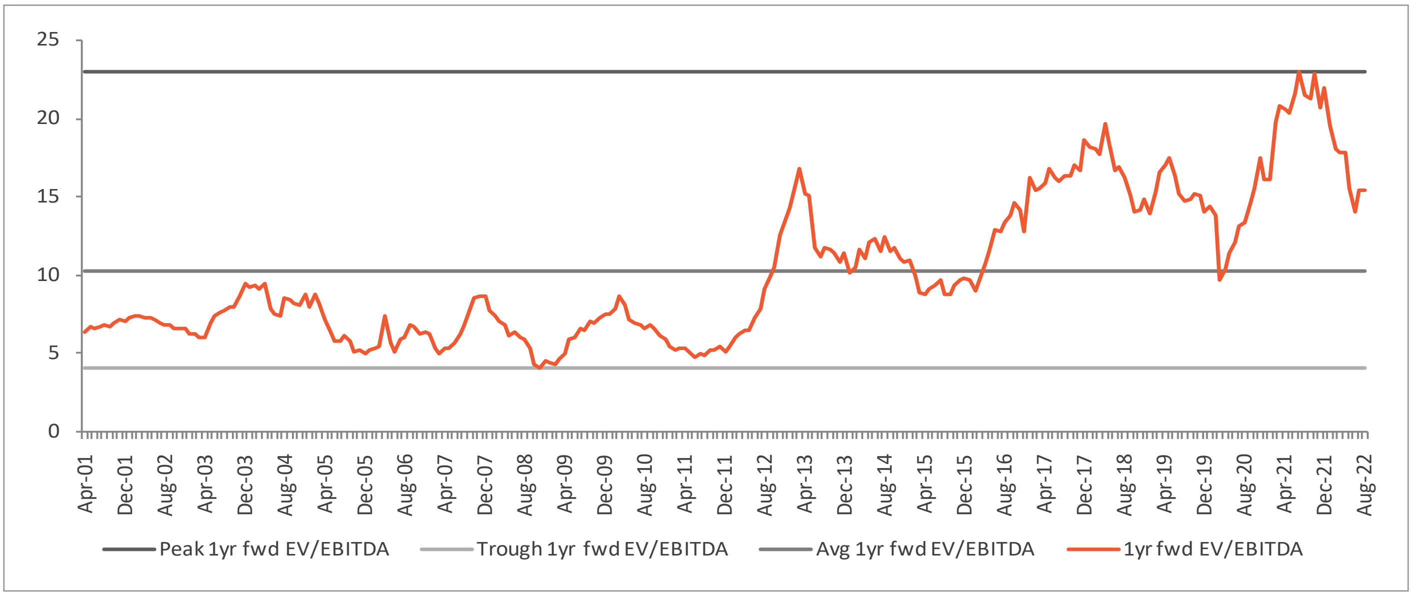
■ Company outlook - Capacity additions expected to capture growth opportunities

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 its 1 MTPA grinding unit and 6MW WHRS is expected by August 2022. The balance 6.15 MW 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 tonnes per day capacity at Ramasamy Raja Nagar is expected to commissioned by March 2023.

■ Valuation - Retain Buy with an unchanged PT of Rs. 850

We expect Ramco to benefit from improving demand and pricing environment in the Eastern and Southern regions going ahead. 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, to improve upon operational profitability. We remain upbeat on its regional leadership positioning and operational efficiencies which would help drive volumes and operational profitability going ahead. Hence, we maintain a Buy with an unchanged price target (PT) of Rs. 850.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
UltraTech	31.3	27.6	15.8	14.1	3.5	3.1	11.8	11.9
Shree Cement	49.3	32.1	20.6	14.9	4.1	3.7	8.6	12.1
The Ramco Cement	34.1	21.8	17.3	12.9	2.6	2.3	7.7	11.1
Dalmia Bharat	40.4	33.0	11.3	9.8	1.8	1.7	4.5	5.3

Source: Company; 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

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

Sharekhan

by BNP PARIBAS

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