



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 Dec 08, 2022 **32.63**

High Risk

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

Source: Morningstar

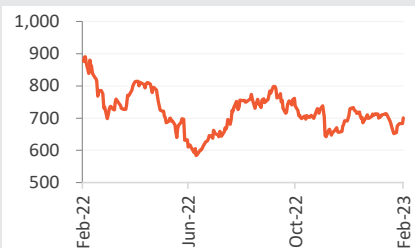
Company details

Market cap:	Rs. 16,566 cr
52-week high/low:	Rs. 905/575
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	7.1
DII	35.6
Others	14.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.7	-0.4	-7.1	-20.0
Relative to Sensex	-0.9	0.8	-9.5	-24.3

Sharekhan Research, Bloomberg

The Ramco Cements Ltd

Non-trade focus to drive growth; Upgrade to Buy

Cement	Sharekhan code: RAMCOCEM
Reco/View: Buy	CMP: Rs. 701 Price Target: Rs. 845
↑ Upgrade	↔ Maintain ↓ Downgrade

Summary

- We upgrade The Ramco Cements Limited (Ramco) to Buy with a revised PT of Rs. 845, rolling forward our valuation multiple to FY2025E earnings and considering its strong earnings growth outlook.
- The company reported better-than-expected performance for Q3FY2023 led by higher-than-expected volumes, blended realisations and operational profitability. Net debt trends lower q-o-q.
- The company expects to achieve 30% y-o-y volume growth for FY2023 and high volume growth for FY2024 led by increasing non-trade sales.
- It is in process of monetizing its non-core asset valued at Rs. 300-400 crore which is expected to aid in reducing leverage.

Ramco Cements Limited (Ramco) reported better-than-expected performance for Q3FY2023 led by higher-than-expected volumes, blended realisations and operational profitability. Standalone revenues rose by 29.7% y-o-y at Rs. 2009 crore led by both cement volumes (up 18.7% y-o-y) and blended realisations (up 9% y-o-y). Blended EBITDA/tonne of Rs. 742 (up 1.8% y-o-y, up 94.0% q-o-q) was higher than our expectation of Rs. 627, led by higher-than-expected blended realisations. Consequently, standalone operating profit rose 23.3% y-o-y to Rs. 285 crore while net profit declined by 18.4% y-o-y at Rs. 67.4 crore (higher interest and depreciation led by commissioning of capacities). The company expects to achieve 30% y-o-y volume growth (earlier 25-30%) for FY2023 and high volume growth for FY2024 led by increasing non-trade sales. The company retained its capex guidance while net debt reduced by Rs. 185 crore q-o-q to Rs. 4556 crores. It is also in process of monetizing its non-core asset (land assets) valued at Rs. 300-400 crore which is expected to aid in reducing leverage. The commissioning of WHRS capacities at its Kurnool plant and diversion of wind power generation for in-house usage is likely to aid in savings in power & fuel costs.

Key positives

- Cement volumes rose 18.7% y-o-y to 3.57mt led by higher non-trade sales.
- EBITDA/tonne at Rs. 742 beat estimates with blended realizations rising by 9% y-o-y and 7% q-o-q.

Key negatives

- Interest expense and depreciation were up 141% y-o-y and 37% y-o-y respectively with the commissioning of new capacities.
- Power & fuel consumption costs per Kcal are expected to remain flattish q-o-q during Q4FY2023.

Management Commentary

- The management expects to achieve 30% y-o-y volume growth (earlier 25-30%) for FY2023 and high volume growth for FY2024 led by an increased focus towards non-trade sales.
- Cement prices remain volatile while the management expects a possible uptick in prices in Q4.
- The addition of 10MW WHRS at Kurnool plant and ~25MW of conversion of windmill power to in-house usage would aid in reducing power costs.
- The company is awaiting government approval for the Karnataka greenfield project, post which it will start land acquisition. The 0.9 MT Odisha GU is expected to get operationalize in nine months.

Revision in estimates – We have increased our earnings estimates for FY2023 factoring in higher realisations. We have fine-tuned our estimates for FY2024-FY2025.

Our Call

Valuation – Upgrade to Buy with a revised PT of Rs. 845: Ramco's focus on the non-trade segment and improved growth outlook for its region of operations is expected to lead to strong volume growth going ahead. Further, a focus on premiumization and improving cost efficiencies is expected to boost operational and net profitability. The company has not revised its capital expenditure upwards while it is focusing on non-core asset monetization to contain leverage in the current growth phase. At CMP, the stock is currently trading at an EV/EBITDA of 13x/11x its FY2024E/FY2025E earnings, which is at discount to other efficient cement peers. Hence, we believe it provides a favourable risk-reward ratio. Consequently, we upgrade the stock to Buy with a revised price target (PT) of Rs. 845 rolling forward our valuation multiple to FY2025E earnings.

Key Risks

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

Valuation (Standalone)

Particulars	FY22	FY23E	FY24E	FY24E
Revenue	5,980	7,684	9,429	10,750
OPM (%)	21.5	13.9	17.5	17.8
Adjusted PAT	893	274	672	845
% YoY growth	17.3	-69.3	145.0	25.7
Adjusted EPS (Rs.)	37.8	11.6	28.4	35.8
P/E (x)	18.6	60.4	24.7	19.6
P/B (x)	2.5	2.5	2.3	2.1
EV/EBITDA (x)	15.7	20.3	13.1	11.1
RoNW (%)	14.7%	4.1%	9.6%	11.0%
RoCE (%)	9.7%	3.7%	6.4%	7.3%

Source: Company; Sharekhan estimates

Strong outperformance

Ramco Cements reported standalone net revenues growth of 29.7% y-o-y at Rs. 2009 crore for Q3FY2023 which was 11% higher than our estimate. Cement volumes were up 19% y-o-y (+7% q-o-q) at 3.6 MnT which was higher than our estimate. Blended realizations were up 9% y-o-y (+7% q-o-q) at Rs. 5569/tonne which was higher than our estimate. Blended standalone EBITDA/tonne at Rs. 742 (+1.8% y-o-y, +94.0% q-o-q) was higher than our estimate of Rs. 627. The higher than expected EBITDA/tonne was led primarily due to higher than expected blended realisations. On the cost front, power & fuel costs per tonne stood at Rs. 1966/tonne (+42% y-o-y, -2% q-o-q), freight costs at Rs. 1108/tonne (flat y-o-y, +5% q-o-q), other expense at Rs. 658/tonne (-4% y-o-y, +7% q-o-q). Overall, standalone operating profit rose by 23.3% y-o-y (+54.9% q-o-q) at Rs. 285 crore which was 28% higher than our estimate. However, higher interest expense (up 2.4x y-o-y) and depreciation (up 37% y-o-y) due to commissioning of Jayanthipuram Line III and Kolimigundla led to 18.4% y-o-y decline in reported Standalone net profit at Rs. 67 crore (up 6x q-o-q, although much higher than our estimate).

Capacity expansion plans

The capacity utilisation of clinker at Kolimigundla plant in AP has reached to 55% during the quarter. Out of 12 MW WHRS in Kolimigundla, 5 MW was commissioned in Nov-22; another 3 MW will be commissioned in Feb-23 and balance 4 MW will be commissioned in May-23. TPP of 18 MW and railway siding will be commissioned in 2023-24. The modernisation of RR Nagar plant will be commissioned before Mar-23. With regards to the expansion of capacity of its dry mix products in TN, production has started in one unit in Dec-22 and another unit in Feb-23. The remaining two units in AP & Orissa will be commissioned during 2023-24. Overall, it incurred Rs. 390 crores capex during Q3.

Key Conference Call highlights

- ♦ **Guidance:** The management expects to achieve 30% y-o-y volume growth (earlier 25-30%) for FY2023 and high-volume growth for FY2024 led by an increased focus towards non-trade sales.
- ♦ **Outlook:** Cement demand is well led by IHB and Infrastructure segments. The recent budget increased allocation towards PMAY, urban infrastructure, transport infrastructure projects and Railways aggregating to Rs. 14 lakh crores is expected to drive demand. Good monsoons, upcoming elections and water levels in reservoirs are good for cement demand.
- ♦ **Q3FY2023 performance:** Revenues, EBITDA and net profit for Q3FY2023 stood at Rs. 2018 crores, Rs. 294 crores and Rs. 97 crores. EBITDA/tonne including other income stood at Rs. 823 as against Rs. 719 in Q3FY2022. Re-imposition of the busy season surcharge by railways led to Rs. 50/tonne reduction in EBITDA/tonne.
- ♦ **Non-core asset sale:** It is planning to sell non-core assets which are land assets going ahead. The land assets are estimated at Rs. 300-400 crore.
- ♦ **Cement prices:** Cement prices remain volatile while the management expects a possible uptick in prices in Q4.
- ♦ **Fuel prices:** Average fuel prices are expected to remain the same in Q4 as in Q3. It has a 173 MW windmill capacity which at PLF of 22% provides 35-40MW. It has in process of transferring wind power generation to in-house use from being sold to TNEB. Out of 35-40MW, it is currently using 15MW in-house. The addition of 10MW WHRS at the Kurnool plant and ~25MW of conversion of windmill power to in-house usage would aid in reducing power costs.
- ♦ **Karnataka greenfield project:** The company is awaiting government approval post which it will start land acquisition. It had allocated capex of Rs. 100 crore and Rs. 250 crores for the project in Q4FY2023 and FY2024, although the same is yet to start.
- ♦ **Odisha GU:** It has started civil construction work on 0.9 MT Odisha grinding unit. It is expected to be completed in nine months.

- ♦ **Capex:** The capacity utilisation of clinker at Kolimigundla plant in AP has reached to 55% during the quarter. Out of 12 MW WHRS in Kolimigundla, 5 MW was commissioned in Nov-22; another 3 MW will be commissioned in Feb-23 and the balance 4 MW will be commissioned in May-23. TPP of 18 MW and railway siding will be commissioned in 2023-24. The modernisation of the RR Nagar plant will be commissioned before Mar-23. With regard to the expansion of capacity of its dry mix products in TN, production has started in one unit in Dec-22 and another unit in Feb-23. The remaining two units in AP & Orissa will be commissioned during 2023-24. Overall, it incurred Rs. 390 crores capex during Q3.
- ♦ **Net debt:** The net debt decreased to Rs. 4556 crores compared to Rs. 4741 crore in Q2FY2023, aided by release in working capital.
- ♦ **Tamil Nadu market:** The TN market is expected to grow at 10-12% this year. Over one decade, it has grown at 4-5% CAGR.
- ♦ **Other highlights:** The premium sales mix stood at 26% versus 23%/25% in Q3FY2022/Q2FY2023. Trade share stood at 63%.

Results (Standalone)

					Rs cr
Particulars	Q3FY23	Q3FY22	y-o-y %	Q2FY23	q-o-q %
Net Sales	2008.8	1549.1	29.7%	1784.4	12.6%
Total Expenditure	1724.1	1318.2	30.8%	1600.6	7.7%
Operating profits	284.6	230.9	23.3%	183.8	54.9%
Other Income	9.3	6.8	37.0%	8.8	5.5%
EBIDTA	294.0	237.7	23.7%	192.7	52.6%
Interest	60.8	25.3	140.7%	55.1	10.5%
PBDT	233.1	212.4	9.8%	137.6	69.4%
Depreciation	135.9	99.2	37.0%	121.6	11.8%
PBT	97.2	113.2	-14.1%	16.0	507.0%
Tax	29.9	30.6	-2.5%	4.6	556.0%
Extraordinary items	0.0	0.0	-	0.0	-
Reported Profit After Tax	67.4	82.6	-18.4%	11.5	487.5%
Adjusted PAT	67.4	82.6	-18.4%	11.5	487.5%
EPS (Rs.)	2.9	3.5	-18.4%	0.5	487.5%
OPM	14.2%	14.9%	-73 bps	10.3%	387 bps
PAT	3.4%	5.3%	-198 bps	0.6%	271 bps
Tax rate	30.7%	27.1%	365 bps	28.4%	230 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens the outlook

The cement industry has seen a sustained improvement in demand in the past 15 years. Barring a couple of years, 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 normalizes 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. The government's Rs. 111-lakh crore infrastructure investment plans from FY2020 to FY2025 would lead to healthy demand.

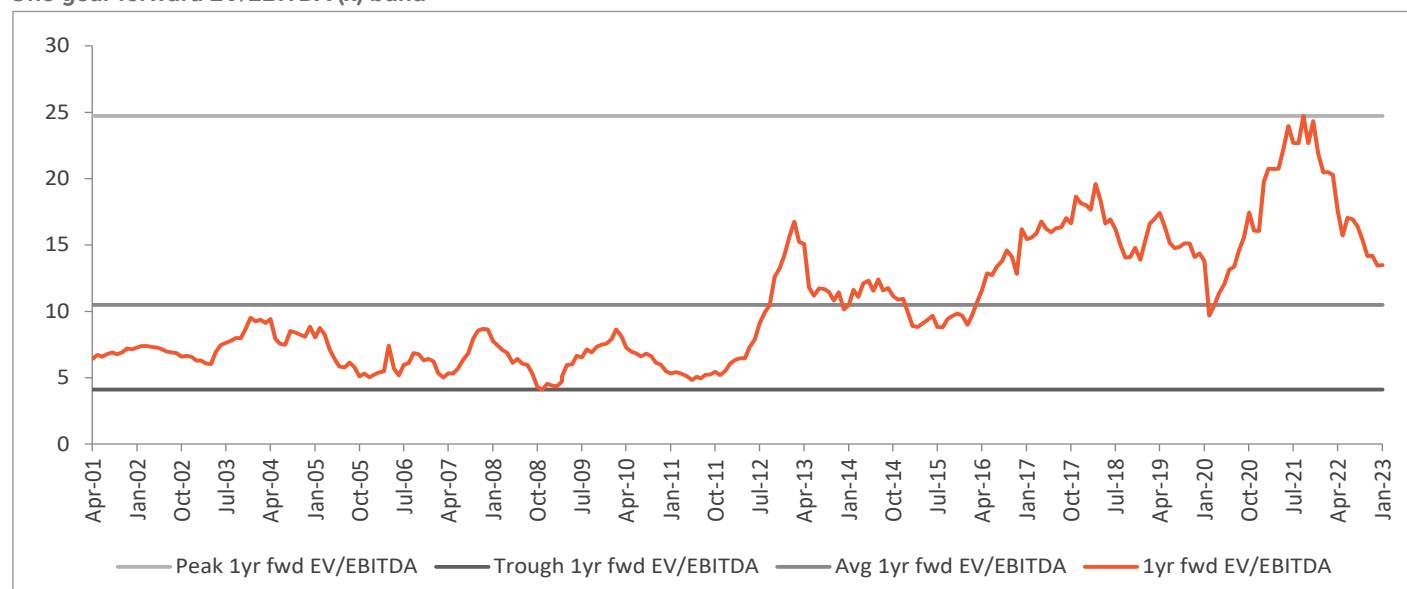
■ Company outlook - Capacity additions expected to capture growth opportunities

The company's ongoing capex plan is to create new grinding and clinkerisation capacities that would help it tap the growth potential in the Eastern region and establish itself as a significant player. It proposed to increase the grinding capacity of the Haridaspur plant, Odisha by 0.9 MTPA at the cost of only Rs.130 Crores. It commenced cement production in Kolimigundla in September 2022, leading to an increased cement capacity to 21 MTPA with a clinker capacity of 14 MTPA. The 3 MW of WHRS in Kolimigundla will be commissioned in February 2023, while the balance of 4 MW of WHRS will be commissioned in May 2023, TPP of 18 MW, and railway siding will be commissioned in 2023-24. The modernisation of the RR Nagar plant will be commissioned before March 2023.

■ Valuation - Upgrade to Buy with a revised PT of Rs. 845

Ramco's focus on the non-trade segment and improved growth outlook for its region of operations is expected to lead to strong volume growth. Further, a focus on premiumisation and improving cost efficiencies are expected to boost operational and net profitability. The company has not revised its capital expenditure upwards while it is focusing on non-core asset monetisation to contain leverage in the current growth phase. At CMP, the stock is currently trading at an EV/EBITDA of 13x/11x its FY2024E/FY2025E earnings, which is at discount to other efficient cement peers. Hence, we believe it provides a favourable risk reward ratio. Consequently, we upgrade the stock to Buy with a revised price target (PT) of Rs. 845 rolling forward our valuation multiple to FY2025E earnings.

One-year forward EV/EBITDA (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	42.4	31.7	20.5	15.9	3.8	3.4	9.3	11.3
Shree Cement	75.2	45.2	28.2	19.5	4.9	4.5	6.6	10.3
The Ramco Cement	60.4	24.7	20.3	13.1	2.5	2.3	4.1	9.6
Dalmia Bharat	51.1	42.1	14.0	11.5	2.1	2.0	4.2	4.9

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 outpace its industry peers on cement volume growth. This, along with improving cement prices, is expected to lead to healthy growth in net earnings during FY2022-FY2025.

Key Risks

- ♦ Correction in cement prices in the 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 and Compliance 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

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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 deteriorating 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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