



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 Mar 08, 2023

34.09

High Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 19,927 cr
52-week high/low:	Rs. 849/575
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	7.6
DII	35.9
Others	14.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.6	14.3	27.3	22.1
Relative to Sensex	9.9	12.5	26.4	5.2

Sharekhan Research, Bloomberg

The Ramco Cements Ltd

Accelerating growth

Cement	Sharekhan code: RAMCOCEM		
Reco/View: Buy	↔	CMP: Rs. 843	Price Target: Rs. 1,010
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy on The Ramco Cements Limited (Ramco) with a revised PT of Rs. 1010, raising our valuation multiple considering strong earnings growth profile over FY2023-FY2025E.
- Strong earnings beat for Q4FY2023 was led by robust volume growth of 46% y-o-y and higher-than-expected operational profitability at Rs. 851/tonne.
- The company expects to achieve a 20% y-o-y volume growth for FY2024 on the back of resilient demand from infra and housing. Operational profitability to get fillip from lower fuel costs from Q2FY2024.
- Front loading of capital expenditure for future expansions would entail lower costs for incremental organic expansions along with reviving return ratios.

Q4FY2023 earnings strongly beat estimates led by robust volume growth and higher operational profitability. Standalone revenues rose by 50.3% y-o-y at Rs. 2570 crore led by strong cement volumes (up 45.6% y-o-y) and higher blended realisations (up 3.6% y-o-y). Blended EBITDA/tonne of Rs. 851 (down 2.2% y-o-y, up 16.8% q-o-q) was higher than our expectation of Rs. 721, led by marginal beat on both blended realisations and opex on a per tonne basis. Consequently, standalone operating profit/net profit rose 39.9% y-o-y/22.8% y-o-y to Rs. 413 crore/Rs. 152 crore. Led by strong demand outlook, the management expects to achieve 20% y-o-y volume growth for FY2024 while reduced fuel costs are expected to improve operational profitability from Q2FY2024. As of now, it highlighted commissioning of 0.9 MTPA cement capacity at Odisha during H2FY2024 before mulling second line at Kurnool and venturing into Karnataka. Its net debt increased by more than Rs. 550 crore to over Rs. 4,300 crore in FY2023 partly led by front loading of capex for future expansions. Hence, going ahead the incremental organic expansions would accrue at much lower costs helping revive RoCEs.

Key positives

- Cement volumes rose 45.6% y-o-y and 29.2% q-o-q to 4.7mt led by strong demand in both Southern and Eastern regions.
- EBITDA/tonne of Rs. 851 beat estimates aided by beat on both blended realisations and opex on per tonne basis.

Key negatives

- Interest expense and depreciation rose 131% y-o-y and 31% y-o-y respectively with the commissioning of new capacities.
- Net Debt rose by more than Rs. 550 crore y-o-y for FY2023 led by capacity expansions.

Management Commentary

- Management expects to achieve 20% y-o-y volume growth for FY2024 due to strong demand. The demand from home builders and infrastructure segments is expected to remain resilient in medium term. It expects margins to improve from Q2FY2024 led by strong reduction in costs.
- It has enough scope for organic expansions at lower costs (cost of setting up 10 million tonne capacity will be lower than Rs. 5000 crore as it front loaded future capex at the risk of lower RoCEs).
- It would be incurring Rs. 800-850 crore capex in FY2024. It would spend Rs. 800-900 crore on second line of Kurnool while the timeline of expansion will be shared at a later stage.
- As per management, it would be comfortable with a net debt to EBITDA of 2-2.5x at which stage further leverage can be taken.

Revision in estimates – We have fine tuned our earnings estimates for FY2024-FY2025.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,010: 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's front-loading of capital expenditure for future expansions is expected to yield benefit in terms of lower costs for organic expansions although it has resulted in weak RoCEs in the interim. The stock has risen 20% since we upgraded it to Buy in our report dated February 7, 2023. At CMP, the stock is currently trading at an EV/EBITDA of 14.5x/12.8x its FY2024E/FY2025E earnings, which we believe provides further room for upside considering its strong earnings growth trajectory over FY2023-FY2025E. Consequently, we retain Buy with a revised price target (PT) of Rs. 1010 increasing our valuation multiple to factor in strong earnings profile over FY2023-FY2025E.

Key Risks

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

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	5,980	8,135	9,872	11,182
OPM (%)	21.5	14.5	16.7	16.6
Adjusted PAT	893	344	620	749
% YoY growth	17.3	-61.5	80.6	20.7
Adjusted EPS (Rs.)	37.8	14.5	26.3	31.7
P/E (x)	22.3	58.0	32.1	26.6
P/B (x)	3.1	2.9	2.7	2.5
EV/EBITDA (x)	18.3	20.3	14.6	12.9
RoNW (%)	14.7%	5.2%	8.8%	9.8%
RoCE (%)	9.7%	4.4%	6.5%	7.2%

Source: Company; Sharekhan estimates

Strong earnings beat

The Ramco Cements reported standalone net revenues growth of 50.3% y-o-y at Rs. 2570 crore for Q4FY2023 which was 27% higher than our estimate. Cement volumes were up 46% y-o-y (+29% q-o-q) at 4.7 MnT which was higher than our estimate. Blended realizations were up 3.6% y-o-y (-0.6% q-o-q) at Rs. 5439/T which was marginally higher than our estimate. Blended standalone EBITDA/T at Rs. 850 (-2.4% y-o-y, +16.6% q-o-q) was much higher than our estimate of Rs. 721. The higher than expected EBITDA/T was led primarily due to marginally higher realisations and lower opex. On the cost front, power & fuel costs per tonne stood at Rs. 1635/T (+13% y-o-y, -15% q-o-q), freight costs at Rs. 1063/T (-2% y-o-y, -2% q-o-q), other expense at Rs. 521/T (-25% y-o-y, -18% q-o-q). Overall, standalone operating profit rose by 39.9% y-o-y (+45% q-o-q) at Rs. 413 crore which was 51% higher than our estimate. However, higher interest expense (up 2.3x y-o-y) and depreciation (up 31% y-o-y) due to commissioning of units in JPM Line-3, Kolimigundla, R R Nagar Line III and Dry Mortar Plants led to 22.8% y-o-y growth in reported Standalone net profit at Rs. 152 crore (up 126% q-o-q, much higher than our estimate).

Key Conference Call highlights

- ♦ **Guidance:** The management expects to achieve 20% y-o-y volume growth for FY2024 due to strong demand and its focus on right products for right applications. The demand from home builder and infrastructure is expected to remain resilient in medium term. It expects margins to improve from Q2FY2024 led by strong reduction in costs. It has 22 million tonnes cement capacity which is backed by clinker capacities. It has enough scope for organic expansions at lower costs (cost of setting up 10 million tonne capacity will be lower than Rs. 5000 crore as it front loaded future capex at the risk of lower RoCEs).
- ♦ **Q4FY2023 performance:** Sales volumes for Q4FY2023 grew 46% y-o-y to 4.7 million tonnes. Standalone revenues/EBITDA/net profit were up 50%/39%/26% y-o-y for Q4FY2023. It commissioned line-3 in RR Nagar plant with 1 MTPA clinkering facility in March 2023.
- ♦ **Expansions:** The 4MW WHRS in Kolimigundla will be commissioned in May 2023. The TPP of 18MW and railway sliding will be commissioned in FY2024. The 0.9 MTPA grinding unit in Odisha is expected to be commissioned in Q3FY2024. The dry mix products at AP & Odisha units will be commissioned in FY2024.
- ♦ **Capex:** It would be incurring Rs. 800-850 crore capex in FY2024. It would spend Rs. 800-900 crores on second line of Kurnool while the timeline of expansion will be shared at a later stage.
- ♦ **Debt:** The net debt of the company stands at Rs. 4351 crore with net debt to EBITDA at 3.57x. As per management, it would be comfortable with net debt to EBITDA of 2-2.5x at which stage further leverage can be taken.
- ♦ **Fuel costs:** The blended fuel consumption per tonne of cement and TPP stood at \$178 in Q4FY2023 as against \$191 in Q3FY2023. The CIF pet coke prices were at \$178 during February 2023 which are currently at \$125. It is still maintaining average two to two and half months fuel inventory. The pet coke prices during January/February/March stood at \$176/\$178/\$161.
- ♦ **Production:** Cement and clinker production during FY2023 was 14.866 million tonnes and 11.872 million tonnes implying CC ratio of 1.25x.
- ♦ **RR Nagar plant:** The RR Nagar cement and clinker capacity is 3 MTPA and 2-2.2 MTPA respectively. It is currently running old 1 MTPA plant due to strong demand as against earlier plan of shutting it down. The old unit is operating with Rs. 120 crores cost overruns. It would undertake modernisation of the said unit if demand is not good over 3-4 months.
- ♦ **Limestone:** Since 2014, limestone bidding has not happened in Tamil Nadu. Its limestone mines would come for expiry beyond 2030.
- ♦ **Other highlights:** The non-trade sales mix remained largely stable at 35% in Q4FY2023 and FY2023.

Results (Standalone)

	Rs cr				
Particulars	Q4FY23	Q4FY22	y-o-y %	Q3FY23	q-o-q %
Net Sales	2569.7	1709.1	50.3%	2008.8	27.9%
Total Expenditure	2156.8	1414.0	52.5%	1724.1	25.1%
Operating profits	412.8	295.1	39.9%	284.6	45.0%
Other Income	11.6	9.9	17.2%	9.3	24.7%
EBIDTA	424.5	305.1	39.1%	294.0	44.4%
Interest	77.2	33.4	130.8%	60.8	26.8%
PBDT	347.3	271.6	27.9%	233.1	49.0%
Depreciation	140.6	107.5	30.7%	135.9	3.5%
PBT	206.7	164.1	26.0%	97.2	112.6%
Tax	54.3	40.0	35.7%	29.9	82.0%
Extraordinary items	0.0	0.0	-	0.0	
Reported Profit After Tax	152.4	124.1	22.8%	67.4	126.2%
Adjusted PAT	152.4	124.1	22.8%	67.4	126.2%
EPS (Rs.)	6.4	5.3	22.8%	2.9	126.2%
			BPS		BPS
OPM	16.1%	17.3%	-120	14.2%	190
PAT	5.9%	7.3%	-133	3.4%	258
Tax rate	26.3%	24.4%	188	30.7%	-442

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. 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.

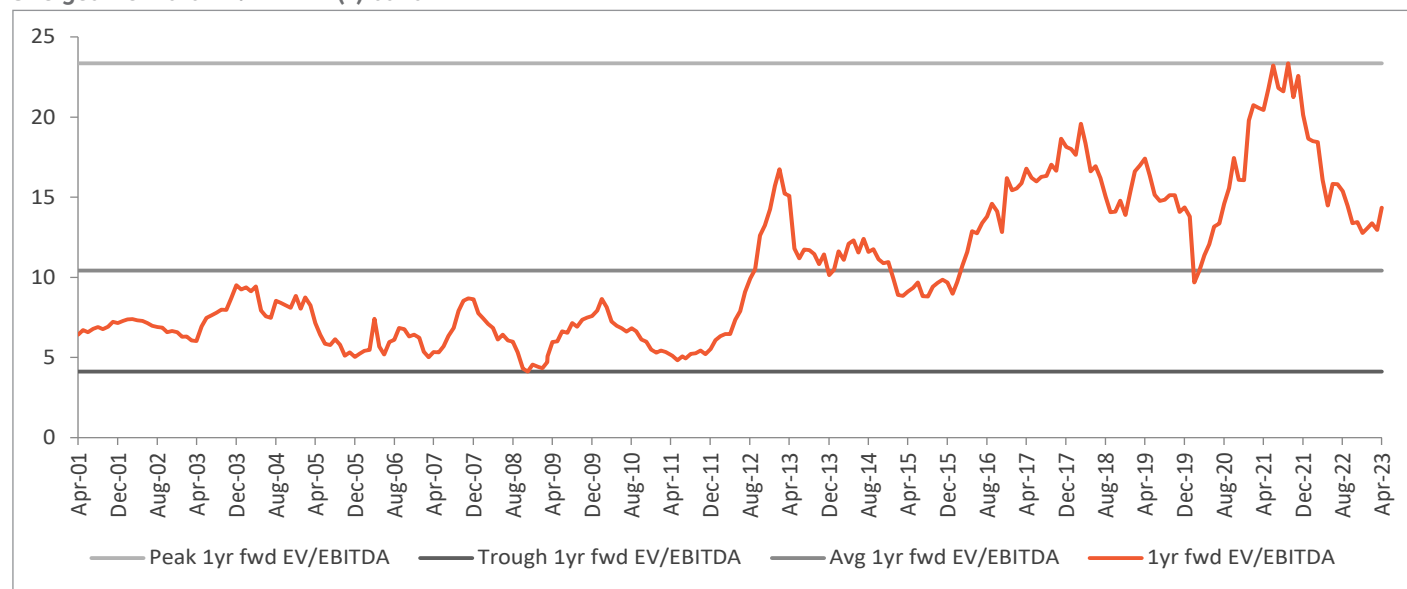
■ Company outlook - Capacity additions expected to capture growth opportunities

The company's ongoing capex plan is to create new grinding and clinker capacities that would help it tap the growth potential in the Eastern region and establish itself as a significant player. Front-loading of capex for future expansions would help it to add incremental organic capacities at lower costs although it has led to lower return ratios in the interim. The management expects strong volume growth of 20% y-o-y for FY2024 given resilient demand environment in infrastructure and housing sectors. In the near term, the focus would be commissioning of the Odisha grinding unit, second line at Kurnool before venturing into Karnataka. Overall, it is poised for a strong earnings growth trajectory over the next two years.

■ Valuation - Retain Buy with a revised PT of Rs. 1010

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 premiumisation and improving cost efficiencies is expected to boost operational and net profitability. The company's front-loading of capital expenditure for future expansions is expected to yield benefit in terms of lower costs for organic expansions although it has resulted in weak RoCEs in the interim. The stock has risen 20% since we upgraded it to Buy in our report dated February 7, 2023. At CMP, the stock is currently trading at an EV/EBITDA of 14.5x/12.8x its FY2024E/FY2025E earnings, which we believe provides further room for upside considering its strong earnings growth trajectory over FY2023-FY2025E. Consequently, we retain Buy with a revised price target (PT) of Rs. 1010 increasing our valuation multiple to factor in strong earnings profile over FY2023-FY2025E.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech	35.4	28.3	17.7	14.5	3.8	3.4	11.3	12.8
Shree Cement	55.7	43.3	21.2	16.8	4.6	4.2	8.4	10.1
The Ramco Cement	32.1	26.6	14.6	12.9	2.7	2.5	8.8	9.8
Dalmia Bharat	46.3	43.2	13.5	12.3	2.3	2.2	5.1	5.2

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 strong growth in net earnings during FY2023-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 Vaithiyathan	Chief Financial Officer
K Selvanayagam	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ramco Industries Ltd	21.36
2	Rajapalayam Mills Ltd	13.81
3	Life Insurance Corp of India	8.7
4	Kotak Mahindra Asset Management Co	6.64
5	Government of Tamil Nadu	3.39
6	SBI Life Insurance Co Ltd	2.76
7	Vanguard Group Inc/The	2.04
8	HDFC Life Insurance Co Ltd	2.00
9	L&T Mutual Fund Trustee Ltd/India	1.97
10	SBI Funds Management Ltd	1.81

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/ investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022- 33054600