



## 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 Jul 08, 2023

34.01

## High Risk

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

Source: Morningstar

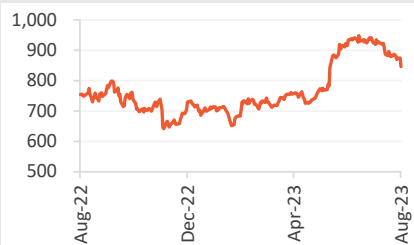
## Company details

Market cap:	Rs. 19,997 cr
52-week high/low:	Rs. 953/635
NSE volume: (No of shares)	9.0 lakh
BSE code:	500260
NSE code:	RAMCOCEM
Free float: (No of shares)	13.7 cr

## Shareholding (%)

Promoters	42.1
FII	8.0
DII	35.8
Others	14.1

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-8.0	9.5	15.9	12.2
Relative to Sensex	-8.8	2.9	7.3	0.3

Sharekhan Research, Bloomberg

## The Ramco Cements Ltd

## Weak Q1; Outlook positive

Cement	Sharekhan code: RAMCOCEM		
Reco/View: Buy	↔	CMP: Rs. 846	Price Target: Rs. 1,010 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- ♦ We retain a Buy on The Ramco Cements Limited (Ramco) with an unchanged PT of Rs. 1010, considering a strong earnings growth profile over FY2023-FY2025E.
- ♦ The company reported weak Q1FY2024 results owing to marginal miss on volumes, lower blended realisations, higher than expected Power & fuel and employee expense.
- ♦ Expect strong volume growth to sustain during FY2024 while the benefit of lower pet coke and coal prices to reflect from Q2FY2024 onwards.
- ♦ Odisha grinding unit of 0.9 mtpa is expected to commission by FY2024 end. Net Debt marginally increase q-o-q, staying at an elevated level.

The Ramco Cements reported weak operational performance for Q1FY2024. Standalone revenues rose by 26.4% y-o-y at Rs. 2241 crore led by strong cement volume growth (up 29% y-o-y, although lower than our estimate) and lower blended realisations (down 1.8% y-o-y, lower than our estimate). Volumes were impacted by non-availability of sand in Kerala, supply disruption due to rail accident and active monsoon in North East. Blended EBITDA/tonne of Rs. 794 (down 11.8% y-o-y, down 11% q-o-q) was lower than our expectation of Rs. 900 on account of lower than expected blended realisations and higher opex on a per tonne basis (higher than expected power & fuel costs due to higher base effect of the carrying value of the fuel inventory and higher employee costs). Standalone operating profit was up 13.6% y-o-y while higher interest expense (up 97% y-o-y) and higher depreciation (up 39% y-o-y led to standalone net profit de-growth of 29.7% y-o-y. We expect strong volume growth to sustain for Ramco during FY2024, led by pre-election government spends and strong housing demand. Further, the benefit of lower pet coke and coal prices during and post Q1FY2024 is expected to reflect in lower power & fuel costs on a per tonne basis in the coming quarter. The Odisha grinding unit Line II of 0.9 MTPA cement capacity is expected to commission by FY2024 end.

## Key positives

- ♦ Cement volumes rose 29% y-o-y despite challenges about non-availability of sand in Kerala, rail accident and North East monsoons.
- ♦ Overall green power usage significantly improved from 19% in Q1FY2023 to 29% in Q1FY2024 with wind power usage for captive purposes.

## Key negatives

- ♦ EBITDA/tonne lagged estimates because of lower-than-expected realization, higher than-expected power & fuel costs and higher employee expense.
- ♦ Interest expense and depreciation rose 97% y-o-y and 39% y-o-y, respectively with the commissioning of new capacities.

## Management Commentary

- ♦ The company continues to focus on the strategy of the right products for the right applications to make its brands stronger. The power & fuel cost per ton is expected to decrease in the coming quarters.
- ♦ The overall green power usage has significantly improved to 29% in Q1FY24, which will lead to a reduction in cost by Rs.70 to Rs.80 per ton in the coming quarters. The green power share is likely to reach 40% for FY24.
- ♦ In Kolimigundla, a balance 3 MW WHRS will be commissioned in Aug-23, and TPP of 18 MW and railway siding will be commissioned in 2023-24. About expansion of the capacity of its dry mix, products in AP & Orissa will be commissioned during 2023-24.

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

## Our Call

**Valuation – Retain Buy with an unchanged 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. Further, focusing 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 benefits in lower costs for organic expansions, although it has resulted in weak RoCEs in the interim. At CMP, the stock is currently trading at an EV/EBITDA of 13x its FY2025E earnings, which we believe provides further room for upside considering its strong earnings growth trajectory over FY2023-FY2025E. Consequently, we retain Buy with an unchanged price target (PT) of Rs. 1010.

## 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	9,631	10,952
OPM (%)	21.5	14.5	16.3	17.3
Adjusted PAT	893	344	506	714
% YoY growth	17.3	-61.5	47.1	41.3
Adjusted EPS (Rs.)	37.8	14.5	21.4	30.2
P/E (x)	22.4	58.2	39.6	28.0
P/B (x)	3.1	2.9	2.8	2.5
EV/EBITDA (x)	18.3	20.4	15.4	12.8
RoNW (%)	14.7%	5.2%	7.2%	9.5%
RoCE (%)	9.7%	4.4%	6.1%	7.4%

Source: Company; Sharekhan estimates

## Key Management Commentary

- ♦ **Outlook:** The company continues to focus on the strategy of the right products for the right applications to strengthen its brands.
- ♦ **Q1FY2024 performance:** During Q1FY24, the sale volumes were up 29% y-o-y to 4.30 million tons; but for the non-availability of sand in Kerala, supply disruption due to rail accident in Orissa and West Bengal and active monsoon in NE, the growth in sale volume could have been better. The cement capacity utilisation for the Q1FY24 is at 79%.
- ♦ **Power & fuel costs:** During the Q1FY24, the blended fuel consumption per ton for cement is equivalent to \$170 (Cost per Kcal: Rs.2.03) as against \$157 (Cost per Kcal: Rs.1.87) during Q1FY23. The power & fuel cost per ton of cement after adjustment of changes in inventories for Q1FY24 has increased to Rs.1,669 from Rs.1,554 in Q1FY23. The current spot CIF prices of pet coke and 4200 GAR coal from Indonesia has come to the level of \$120 and \$61 respectively in Jul-23. Even though the fuel prices have come down during the Q1FY24 for a brief period, the power & fuel cost per ton of cement for Q1FY24 remain at elevated level due to the higher base effect of the carrying value of the fuel inventory. However, the power & fuel cost per ton is expected to come down in the coming quarters.
- ♦ **Green Power:** The overall green power usage has significantly improved from 19% in Q1FY23 to 29% in Q1FY24 in view of change in utility of wind power to captive purposes, which will lead to reduction in cost by Rs.70/- to Rs.80/- per ton in the coming quarters. The green power share is likely to reach 40% for FY24.
- ♦ **Expansions:** In Kolimigundla, balance 3 MW WHRS will be commissioned in Aug-23, and TPP of 18 MW and railway siding will be commissioned in 2023-24. With regard to expansion of capacity of its dry mix, products in AP & Orissa will be commissioned during 2023-24.
- ♦ **Capex:** The company has incurred Rs.284 Crores during Q1FY24. The net debt as on 30-6-2023 is Rs. 4,406 crores, out of which Rs. 479 Crores is for working capital. The average cost of interest-bearing borrowings for the Q1FY24 is increased to 7.95% from 6.66% in FY23.

## Results (Standalone)

Particulars	Q1FY24	Q1FY23	y-o-y %	Q4FY23	q-o-q %
<b>Net Sales</b>	<b>2241.1</b>	<b>1772.5</b>	<b>26.4%</b>	<b>2569.7</b>	<b>-12.8%</b>
Total Expenditure	1899.6	1471.8	29.1%	2156.8	-11.9%
<b>Operating profits</b>	<b>341.5</b>	<b>300.7</b>	<b>13.6%</b>	<b>412.8</b>	<b>-17.3%</b>
Other Income	7.9	6.9	14.3%	11.6	-32.2%
EBIDTA	349.4	307.6	13.6%	424.5	-17.7%
Interest	93.4	47.5	96.7%	77.2	21.0%
PBDT	256.0	260.1	-1.6%	347.3	-26.3%
Depreciation	147.9	106.4	39.0%	140.6	5.2%
<b>PBT</b>	<b>108.1</b>	<b>153.7</b>	<b>-29.7%</b>	<b>206.7</b>	<b>-47.7%</b>
Tax	29.2	41.4	-29.6%	54.3	-46.3%
Extraordinary items	0.0	0.0	-	0.0	-
Reported Profit After Tax	78.9	112.3	-29.7%	152.4	-48.2%
<b>Adjusted PAT</b>	<b>78.9</b>	<b>112.3</b>	<b>-29.7%</b>	<b>152.4</b>	<b>-48.2%</b>
EPS (Rs.)	3.3	4.8	-29.7%	6.4	-48.2%
OPM	15.2%	17.0%	-173 bps	16.1%	-83 bps
PAT	3.5%	6.3%	-281 bps	5.9%	-241 bps
Tax rate	27.0%	27.0%	3 bps	26.3%	71 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 rising 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 market. 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 market.

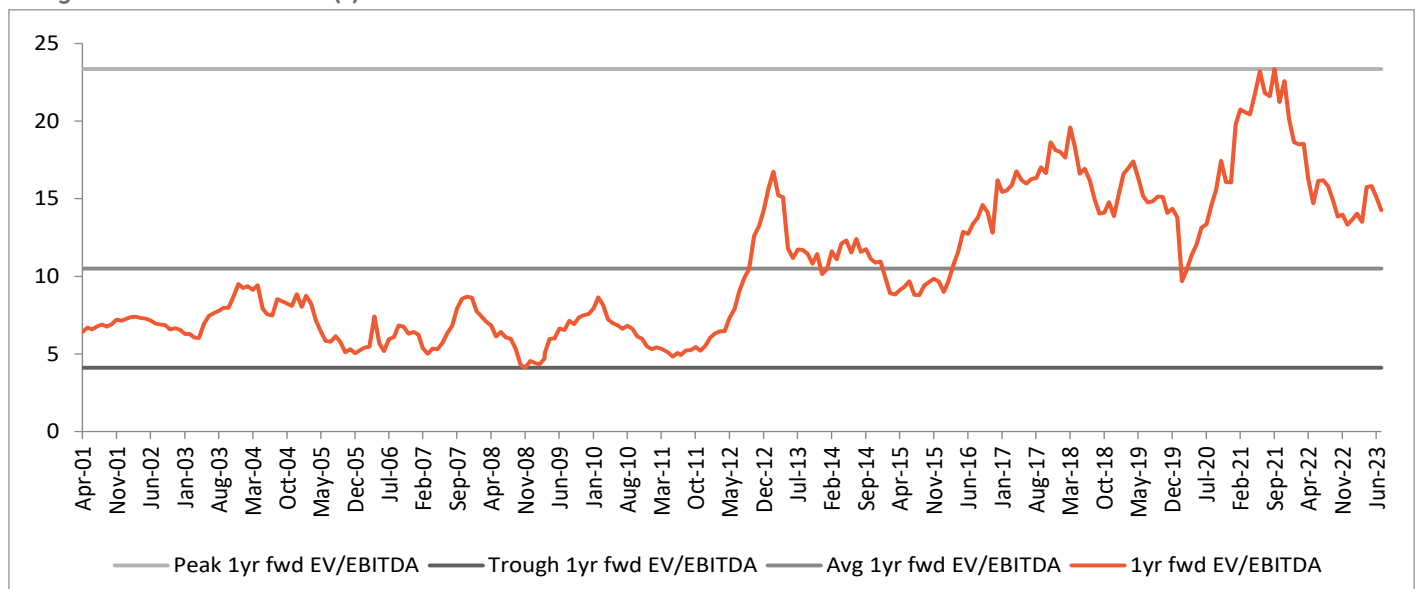
### ■ Company outlook - Capacity additions expected to capture growth opportunities

The company's ongoing capex plan is to create new grinding and clinker capacities to 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 the infrastructure and housing sectors. In the near term, the focus would be commissioning the Odisha grinding unit, the second line at Kurnool before venturing into Karnataka. It is poised for a strong earnings growth trajectory over the next two years.

### ■ Valuation - Retain Buy with an unchanged 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. Further, focusing 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 benefits in terms of lower costs for organic expansions. However, it has resulted in weak RoCEs in the interim. At CMP, the stock is currently trading at an EV/EBITDA of 13x its FY2025E earnings, which we believe provides further room for upside considering its strong earnings growth trajectory over FY2023-FY2025E. Consequently, we retain Buy with an unchanged price target (PT) of Rs. 1010.

#### One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

#### Peer Comparison

Company	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech	34.8	27.4	19.4	15.7	4.0	3.6	12.1	13.8
Shree Cement	50.6	40.5	19.8	15.9	4.5	4.1	9.1	10.6
The Ramco Cement	39.6	28.0	15.4	12.8	2.8	2.5	7.2	9.5
Dalmia Bharat	51.8	45.7	14.4	13.0	2.3	2.2	4.5	4.9

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 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 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	21.36
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

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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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