Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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 34.01

Updated Aug 08, 2023

High Risk

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

Source: Morningstar

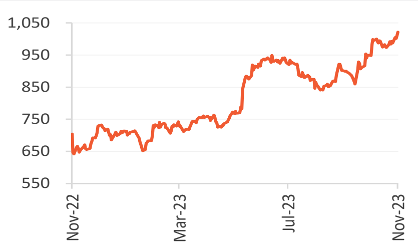
Company details

Market cap:	Rs. 24,137 cr
52-week high/low:	Rs. 1,040/635
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	7.9
DII	36.8
Others	13.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.7	18.1	32.6	45.1
Relative to Sensex	8.7	19.9	27.6	38.9

Sharekhan Research, Bloomberg

The Ramco Cements Ltd

Stellar Q2; growth momentum to sustain

Cement		Sharekhan code: RAMCOCEM	
Reco/View: Buy	↔	CMP: Rs. 1,022	Price Target: Rs. 1,205 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We retain a Buy on The Ramco Cements Limited (Ramco) with a revised PT of Rs. 1205, led by upwardly revised estimates and considering a strong earnings growth profile over FY2023-FY2025E.
- The Ramco Cements reported a strong beat on earnings led by 39% y-o-y rise in sales volume and a 56% y-o-y rise in EBITDA/tonne led by lower P&F costs.
- Management expects a 20%+ sales volume growth for FY2024 on strong demand. Cement price hikes undertaken in South during October sustained in November.
- Net Debt rose q-o-q although it is expected to peak out. Kurnool expansion likely to be undertaken on priority with a low capex and faster execution.

The Ramco Cements (Ramco) reported strong beat for Q2FY2024 earnings. Standalone revenues rose by 30.5% y-o-y at Rs. 2329 crore led by strong cement volume growth (up 39% y-o-y, strong volume growth in South India) and lower blended realisations (down 6.2% y-o-y, weak Southern prices). Blended EBITDA/tonne of Rs. 865 (up 55.7% y-o-y, up 8.9% q-o-q) was higher than our expectation of Rs. 797 (lower power & fuel costs more than offset lower realisations). Standalone operating profit was up 117% y-o-y at Rs. 399 crore (higher than estimate). Higher interest expense (up 112% y-o-y) and higher depreciation (up 30% y-o-y) led by commissioning of new capacities and purchase of limestone bearing lands led to standalone net profit of Rs. 101 crore (much higher than our estimate). The management expects over 20% y-o-y sales volume growth for FY2024 led by strong demand while cement price hikes undertaken during October month continue to sustain during November. Odisha grinding unit Line II of 0.9 MTPA cement capacity is expected to be commissioned by January 2024. It would be undertaking Kurnool second line expansion (1 mtpa cement, 2.5 mtpa clinker) priority-wise, which can be completed in 12-15 months. The elevated debt is the peak debt while it focuses on de-leveraging going ahead.

Key positives

- Cement sales volumes rose 39% y-o-y on strong volume growth in Southern region.
- EBITDA/tonne at Rs. 865 beat estimates as lower power & fuel costs aided by full conversion of wind power usage to captive purpose offset lower realisations (weak Southern cement prices).

Key negatives

- Net debt increased by Rs. 560 crore q-o-q to Rs. 4966 crore led by purchase of limestone-bearing land parcels in A.P. and Karnataka.
- Blended realisations fell 6% y-o-y and 3% q-o-q on account of weak cement prices in Southern region.

Management Commentary

- Company retained 18 plus million tonne sales volumes for FY2024 expecting similar volume trajectory for H2 as seen in H1.
- The Kurnool second line of 1 mtpa cement and 2.5 mtpa clinker capacities will be undertaking as first priority. The capex for the same is estimated at Rs. 700-750 crore (excluding mining land cost which is already incurred).
- Green power mix increased to 38% from 22% in Q2FY2023. The same is expected to increase to 40% and 45% in FY2024 and FY2025.

Revision in estimates – We have increased our operating profit estimates for FY2024-FY2026 factoring lower P&F costs. Net earnings remain largely unchanged owing to increased interest and depreciation expenses.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,205: 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 at lower costs for organic expansions. At CMP, the stock trades at an EV/EBITDA of 14x/13x its FY2025E/FY2026E earnings, which we believe provides further room for upside considering its strong earnings growth trajectory over FY2023-FY2026E. Consequently, we retain Buy with a revised price target (PT) of Rs. 1205, led by upward revision in earnings estimates.

Key Risks

Weak demand and pricing environment in South India would affect profitability

Valuation (Standalone) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	8,135	9,631	10,952	11,726
OPM (%)	14.5	17.6	18.5	18.5
Adjusted PAT	344	494	726	848
% YoY growth	-61.5	43.8	47.0	16.7
Adjusted EPS (Rs.)	14.5	20.9	30.7	35.9
P/E (x)	70.3	48.9	33.2	28.5
P/B (x)	3.6	3.4	3.1	2.8
EV/EBITDA (x)	23.9	17.1	14.2	13.1
RoNW (%)	5.2%	7.1%	9.7%	10.3%
RoCE (%)	4.4%	6.5%	7.8%	8.2%

Source: Company; Sharekhan estimates

Key Management Commentary

- **Guidance:** The company retained its 18 plus million tonne sales volumes target for FY2024 expecting similar volume trajectory for H2 as seen in H1.
- **Q2FY2024 highlights:** Southern prices remained under pressure during Q2 although demand remained strong. Cement sales grew 38% y-o-y to 4.61 million tonne. Premium sales mix rose to 28% compared to 25% last year. Capacity utilisation improved to 82% compared to 66%. Net revenues grew 31% y-o-y to Rs. 2,343 crore, EBITDA stood at Rs. 412 crore with OPM of 18% compared to 11% in Q2FY2023, blended EBITDA/tonne stood at Rs. 894 compared to Rs. 575 in Q2FY2023 and PAT stood at Rs. 138 crore compared to Rs. 16 crore. Power & fuel costs declined to Rs. 1358/tonne compared to Rs. 1989/tonne in Q2FY2023 led by full conversion of wind power for captive consumption and increase in WHRS capacities.
- **Capacity expansion:** In Kolimigundla, TPP of 18 MW will be commissioned during December 2023 and railway siding will be commissioned during June 2024. Expansion of capacity of dry mix products in AP & Orissa will be commissioned during December 2023. The expansion of grinding plant from 0.9 MTPA to 1.8 MTPA in Orissa are expected to be commissioned during January 2024. It would be announcing clinker capacity expansion soon after getting board approval.
- **Kurnool expansion:** Kurnool second line of 1 mtpa cement and 2.5 mtpa clinker capacities will be undertaking as first priority. The capex for the same is estimated at Rs. 700-750 crores (excluding mining land cost which is already incurred).
- **Karnataka project expansion:** The Karnataka project may start in FY2026 as it is yet to buy land and obtain requisite approvals.
- **Capex:** It incurred a capex of Rs. 941 crore in Q2 as it acquired limestone-bearing lands in AP & Karnataka for augmenting its limestone reserves of 140 million tonnes. The capex for FY2024 is estimated at Rs. 1600 crore (including maintenance capex) and for FY2025 at Rs. 200-250 crore (capex related to planned projects and excluding Rs. 100-200 crore maintenance capex). It would undertake 15 MW WHRS capacity at TN at a cost of Rs. 100-150 crore if necessary and feasible.
- **Debt:** The current net debt stands at Rs. 4966 crore. The current debt is the maximum debt it will have with focus expected to shift towards de-leveraging going ahead.
- **Cement prices:** Cement prices improved in October and sustained during November.
- **Fuel mix:** Spot petcoke CIF prices has increased to $138 now from $104 in June. Pet coke consumption mix stood at 53%.
- **Green power:** Green power mix increased to 38% from 22% in Q2FY2023. The same is expected to increase to 40% and 45% in FY2024 and FY2025. Green power mix may improve to 50-52% if TN and RR Nagar WHRS capacity of 15 MW gets commissioned.

Results (Standalone) Rs cr

Particulars	Q2FY24	Q2FY23	y-o-y %	Q1FY24	q-o-q %
Net Sales	**2329.3**	**1784.4**	**30.5%**	**2241.1**	**3.9%**
Total Expenditure	1930.7	1600.6	20.6%	1899.6	1.6%
Operating profits	**398.6**	**183.8**	**116.9%**	**341.5**	**16.7%**
Other Income	13.5	8.8	52.5%	7.9	70.8%
EBIDTA	412.1	192.7	113.9%	349.4	18.0%
Interest	116.5	55.1	111.7%	93.4	24.8%
PBDT	295.6	137.6	114.8%	256.0	15.5%
Depreciation	157.4	121.6	29.5%	147.9	6.4%
PBT	**138.2**	**16.0**	**762.4%**	**108.1**	**27.8%**
Tax	36.9	4.6	710.1%	29.2	26.4%
Extraordinary items	0.0	0.0	-	0.0	-
Reported Profit After Tax	101.3	11.5	783.2%	78.9	28.4%
Adjusted PAT	**101.3**	**11.5**	**783.2%**	**78.9**	**28.4%**
EPS (Rs.)	4.3	0.5	783.2%	3.3	28.4%
OPM	17.1%	10.3%	681 bps	15.2%	188 bps
PAT	4.3%	0.6%	371 bps	3.5%	83 bps
Tax rate	26.7%	28.4%	-172 bps	27.0%	-30 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.

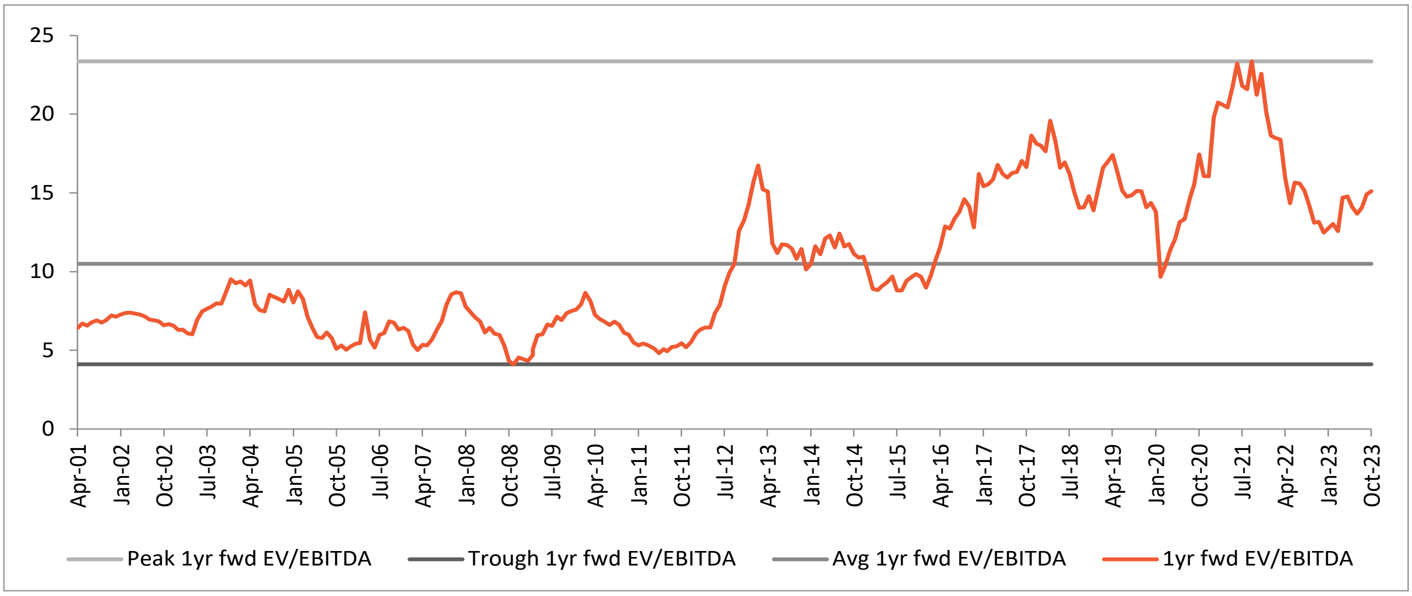
■ Company outlook - Capacity additions expected to capture growth opportunities

The company's ongoing capex plan is to create new grinding and clinker capacities to help it tap 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 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 a revised PT of Rs. 1205

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 at lower costs for organic expansions. At CMP, the stock trades at an EV/EBITDA of 14x/13x its FY2025E/FY2026E earnings, which we believe provides further room for upside considering its strong earnings growth trajectory over FY2023-FY2026E. Consequently, we retain Buy with a revised price target (PT) of Rs. 1205, led by upward revision in earnings estimates.

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	34.4	27.3	19.5	15.9	4.2	3.7	12.9	14.5
Shree Cement	54.2	43.3	21.3	17.2	4.8	4.4	9.1	10.6
The Ramco Cement	48.9	33.2	17.1	14.2	3.4	3.1	7.1	9.7
Dalmia Bharat	45.5	37.0	14.0	12.2	2.4	2.2	5.3	6.2

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 Vaithiyanathan	Chief Financial Officer
K Selvanayagam	Company Secretary andCompliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ramco Industries Ltd	21.36
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

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

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