

Operationally in line performance; maintain BUY

Ramco Cements' revenue fell 9.2% YoY to ₹ 1,394 crore (I-direct estimate: ₹ 1,422 crore). This was mainly led by 11% fall in sales volume during the quarter to 2.93 MT (I-direct estimate: 3.10 MT) as its operation was impacted from mid-March due to imposition of lockdown. Realisations improved 2% YoY to ₹ 4754/t (I-direct estimate: 4565/t). Total costs per tonne increased 3.3% YoY to ₹ 3,798/t (I-direct estimate: ₹ 3,712/t) led by higher other costs, that were up 29% YoY due to higher spend towards advertisement & sales promotion due to new launches of premium varieties of cement. All other cost heads like power, freight and raw materials were down 2.7%, 2.2% and 4.9% YoY, respectively, as commodity prices were benign. Thus, EBITDA margins fell 96 bps YoY to 20.1% (I-direct estimate: 19.1%) and EBITDA/t fell 2.6% YoY to ₹ 956/t (I-direct estimate: ₹ 876.t). Drop in volumes, profitability, dragged EBITDA down 13.3% YoY to ₹ 280.4 crore (I-direct estimate: ₹ 271 crore). In line with lower operating profit, PAT fell 10.8% YoY to ₹ 145.7 crore. Ramco ended FY20 with total debt of ₹ 3,024 crore.

New capacity to cushion fall in FY21, spur growth in FY22

The company posted 4.7% YoY growth, mainly led by a strong H1 followed by a sluggish H2. Amid the ongoing pandemic situation, we expect demand to broadly remain weak in H1, with a gradual recovery expected from Q3 onwards. FY20 would be a washout year for cement companies. Negative topline growth was due to weak volume. FY22 should see strong growth, led by demand recovery and a weak base. In Ramco Cement's case, while it would also see lower volumes, incremental volumes coming up from additional capacities (2 MT already commissioned and 1 MT expected in H1FY21E) would help contain the volume decline. We model 3% decline and 21% growth in volumes in FY21E, FY22E, respectively. Hence, revenues are expected at ₹ 4,990 crore, ₹ 6,245 crore for FY21E, FY22E, respectively.

Absolute debt levels to rise but no B/S concerns

Ramco spent ₹ 1,920 crore towards capex in FY20. The management plans to spend ~₹ 1,400 crore in FY21E to fund the ongoing capex (Odisha GU, Jayanthipuram clinker capacity, WHRMS, Kurnool greenfield expansion), funded by debt and internal accruals. While debt levels are expected to rise, debt/EBITDA is expected to improve from 2.8x in FY20 to 2.2x by FY22E. Average cost of interest bearing debt for the company is 7.34%, much lower than RoCE expected once capex is complete and utilisation levels improve. D/E would also stay well below 1x, providing comfort.

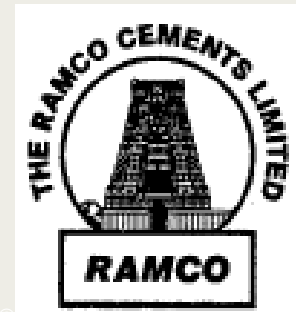
Valuation & Outlook

Long history of operations, brand equity, low cost producer and a healthy B/S are key positives for the company. On account of this, the company is able to raise debt at competitive rates. We expect these factors to continue to drive robust performance in the future as well. We maintain our positive stance on the company with a **BUY** rating. Valuing the company at 15x FY22E EV/EBITDA we arrive at a target price of ₹ 730 (implying EV/t of \$140).

Key Financial Summary

Key Financials	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4406	5146	5389	4990	6245	7.6%
EBITDA	1099	1055	1147	953	1356	8.7%
EBITDA (%)	25.0	20.5	21.3	19.1	21.7	
PAT	556	523	604	285	522	-7.1%
EPS (₹)	23	22	26	12	22	
EV/EBITDA	14.5	15.6	15.7	19.6	13.2	
EV/Tonne (\$)	147	152	138	130	124	
RoNW	13.7	11.7	12.3	5.6	9.2	
RoCE	10.3	8.2	7.5	4.7	7.3	

Source: Company, ICICI Direct Research



Stock Data

Particulars	Amount (₹crore)
Market Capitalisation	14998.8
Total Debt (FY 19)	3163.0
Cash (FY 19)	118.0
EV	18043.8
52 week H/L (₹)	884/556
Equity Capital	23.6
Face Value (₹)	1

Key Highlights

- Grinding capacity to reach 20 MT in 2020. Company to incur capex of ~₹ 1,400 crore in FY21
- Volume growth to resume in FY22
- Debt/EBITDA coverage to improve from 2.8x in FY20 to 2.2x by FY22E
- Maintain BUY with target price of ₹ 730 (earlier ₹ 610)

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Net Sales	1,394	1,422.0	1,535	-9.2	1,282	8.7	Revenue declined mainly led by 11% fall in sales volume
Other income	9.9	4.0	10.6	-6.9	7.9	25.6	
Raw Material Expenses	164.4	179.6	194.2	-15.4	171.8	-4.3	
Employee Expenses	87.6	95.0	90.1	-2.8	100.2	-12.7	
Power and fuel	254.4	297.3	293.8	-13.4	259.2	-1.9	
Freight	375.7	380.9	431.5	-12.9	348.4	7.8	
Others	231.6	198.2	202.0	14.6	197.9	17.0	
EBITDA	280.4	271.2	323.6	-13.3	204.7	37.0	
EBITDA Margin (%)	20.1	19.1	21.1	-96 bps	16.0	415 bps	Higher costs per tonne YoY led to margin contraction
Interest	21.6	30.0	13.1	65.5	21.6	-0.1	
Depreciation	83.5	105.4	77.2	8.1	80.0	4.3	
PBT	185.2	119.8	243.9	-24.1	110.9	67.0	
Total Tax	39.5	30.2	80.5	-50.9	15.5	155.3	
Reported PAT	145.7	89.6	163.4	-10.8	95.4	52.7	
Adjusted PAT	145.7	89.6	163.4	-10.8	95.4	52.7	Strong operating performance, lower taxes led to higher PAT

Key Metrics

Volume (MT)	2.93	3.10	3.29	-11.0	2.84	3.1	
Realisation (₹)	4,754	4,565	4,660	2.0	4,508	5.5	
EBITDA per Tonne (₹)	956	876	982	-2.6	720	32.9	EBITDA decline led by higher total costs per tonne

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,838.0	4,989.6	3.1	6,056.0	6,245.2	3.1	Rural demand keeping up current momentum, leads us to tweak our estimates higher
EBITDA	889.0	953.4	7.2	1,275.0	1,356.4	6.4	
EBITDA Margin (%)	18.4	19.1	73 bps	21.1	21.7	67 bps	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Volume (MT)	9.31	11.12	11.2	10.9	13.1	10.6	12.8	Rural, Tier-II/Tier-III demand keeping up current momentum, leads us to tweak our estimates higher
Blended Realisation (₹)	4,732	4,628	4,811	4,592	4,750	4,577	4,735	
EBITDA per Tonne (₹)	1,181	949	1,024	877	1,032	841	997	

Source: Company, ICICI Direct Research

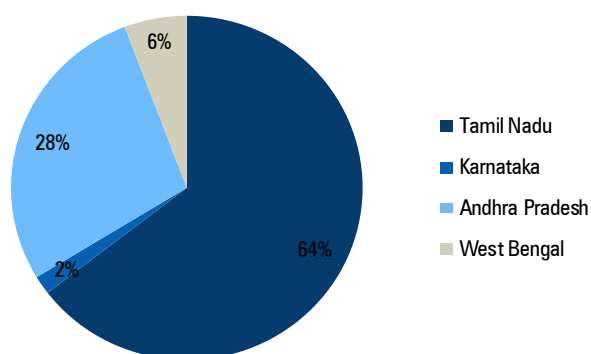
Financial story in charts

Exhibit 4: Capacity addition timeline

Integrated unit	FY18	FY19	FY20E	FY21E
RR Nagar, Tamil Nadu	2.0	2.0	2.0	2.0
Alathiyur, Tamil Nadu	3.1	3.1	3.1	3.1
Ariyalur, Tamil Nadu	3.5	3.5	3.5	3.5
Chitradurga, Karnataka	0.3	0.3	0.3	0.3
Jayanthipuram, Andhra Pradesh	3.7	3.7	3.7	3.7
Total [A]	12.5	12.5	12.5	12.5
Grinding Unit				
Uthiramerur, Tamil Nadu	0.5	0.5	0.5	0.5
Salem, Tamil Nadu	1.6	1.6	1.6	1.6
Kolaghat, West Bengal	1.0	1.0	2.0	2.0
Vizag, Andhra Pradesh	1.0	1.0	2.0	2.0
Odisha Grinding Unit			0.0	1.0
Kurnool, Andhra Pradesh (2.25 MT Clinker)				1.0
Total [B]	4.1	4.1	6.1	8.1
Total Capacity [A+B]	16.5	16.5	18.6	20.6

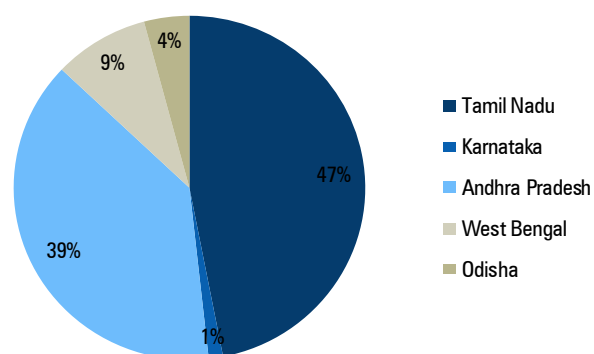
Source: Company, ICICI Direct Research

Exhibit 5: Regional capacity mix (pre-expansion)



Source: Company, ICICI Direct Research

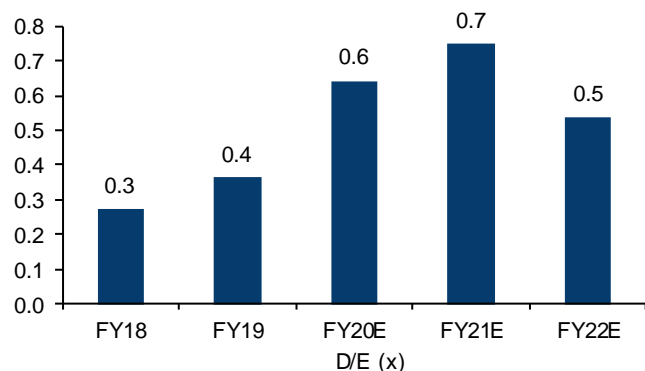
Exhibit 6: Regional capacity mix (post-expansion)



Source: Company, ICICI Direct Research

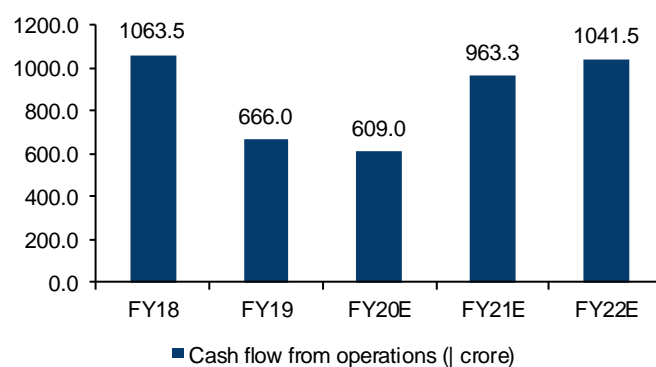
Expansion not expected to exert pressure on balance sheet

Exhibit 7: Debt to equity ratio to stay at comfortable levels



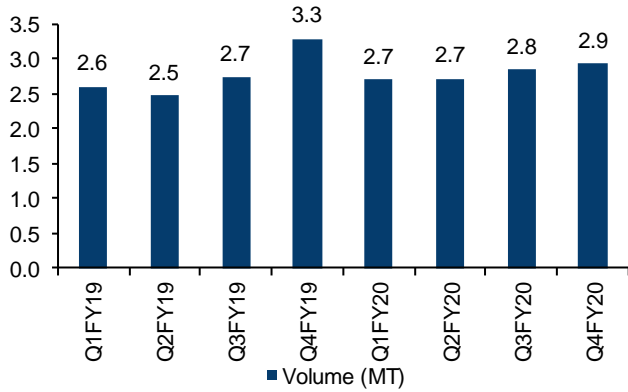
Source: Company, ICICI Direct Research

Exhibit 8: Expected to generate strong operational cash flows



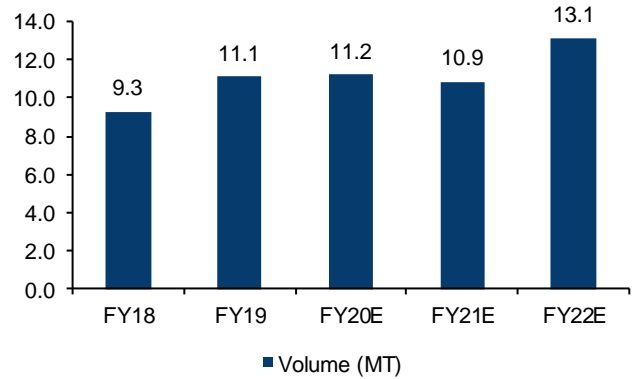
Source: Company, ICICI Direct Research

Exhibit 9: Volumes down 11% YoY in Q4FY20



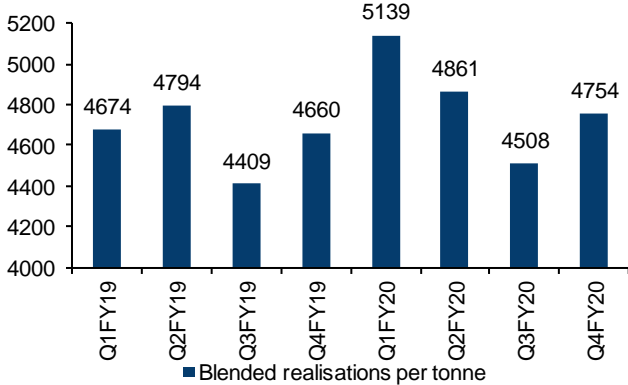
Source: Company, ICICI Direct Research

Exhibit 10: Volumes to see sharp growth in FY22E led by new capacity



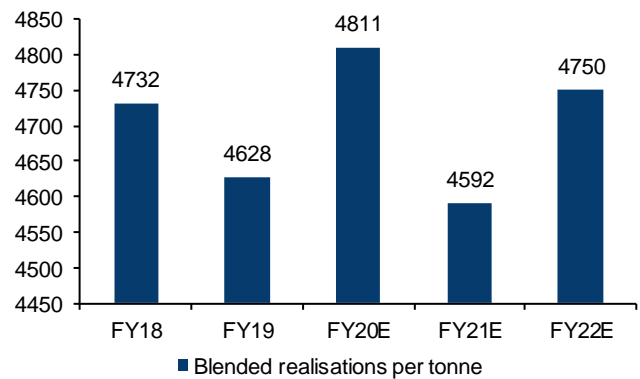
Source: Company, ICICI Direct Research

Exhibit 11: Realisations improve 2% YoY in Q4FY20



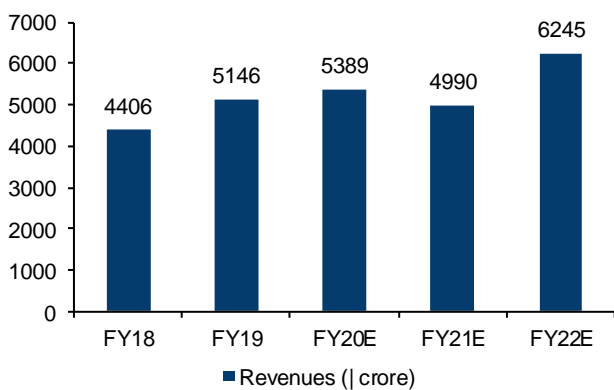
Source: Company, ICICI Direct Research

Exhibit 12: Realisations to recover in FY22E



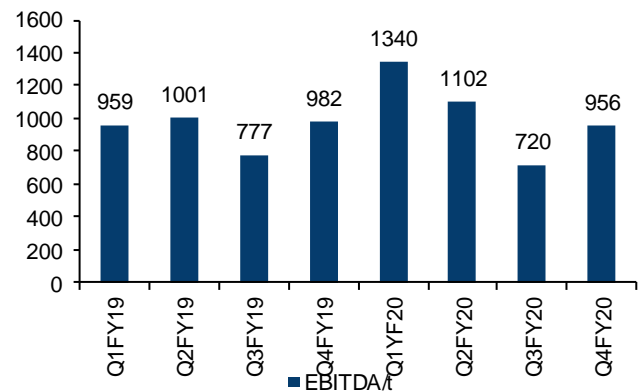
Source: Company, ICICI Direct Research

Exhibit 13: Revenues to grow at 7.6% CAGR over FY20-22E



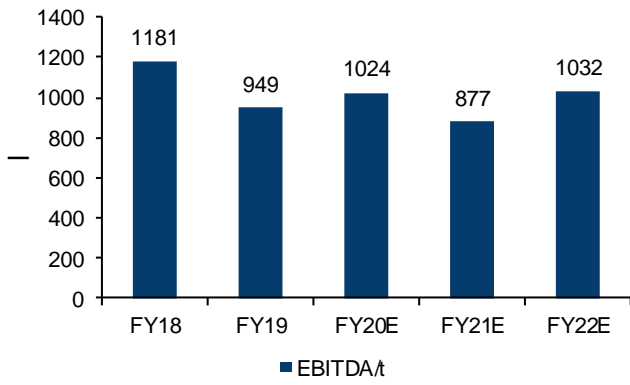
Source: Company, ICICI Direct Research

Exhibit 14: EBITDA/t declines YoY by 2.6% YoY



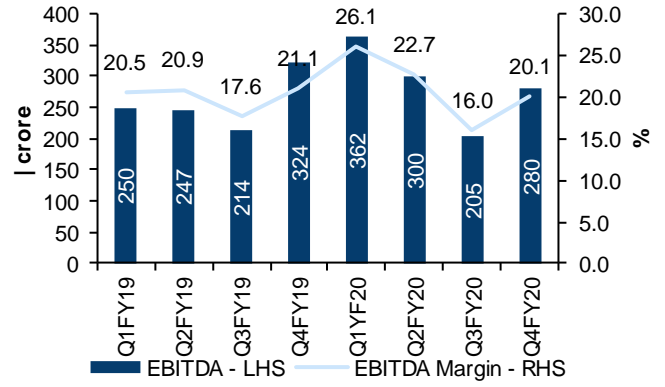
Source: Company, ICICI Direct Research

Exhibit 15: EBITDA/t growth to jump back to above ₹ 1,000 levels in FY22E



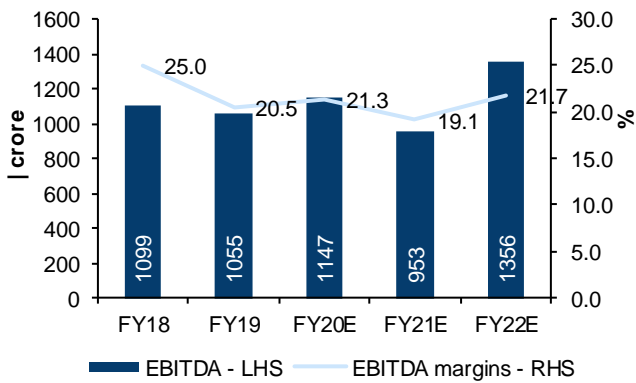
Source: Company, ICICI Direct Research

Exhibit 16: EBITDA margins contract 96 bps YoY



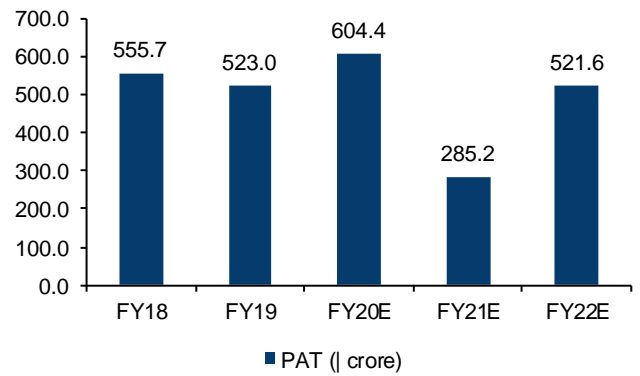
Source: Company, ICICI Direct Research

Exhibit 17: EBITDA to grow at ~8.6% CAGR over FY20-22E



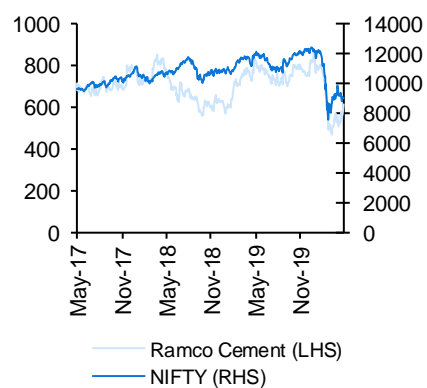
Source: Company, ICICI Direct Research

Exhibit 18: PAT to rise on back of improving operational performance



Source: Company, ICICI Direct Research

Exhibit 19: Price performance vs. Nifty



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 20: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	42.75	42.75	42.66	42.66	42.66
FII	11.54	11.99	11.74	11.74	8.91
DII	23.05	22.91	21.58	21.88	24.45
Others	22.66	22.35	24.02	23.72	23.98

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 21: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total operating Inco	5,146.3	5,389.3	4,989.6	6,245.2
Growth (%)	16.8	4.7	-7.4	25.2
Raw material cost	623.4	650.7	643.8	794.5
Employee Expenses	329.5	380.6	376.8	399.4
Power, Oil & Fuel	1057.3	1050.9	972.6	1216.3
Freight cost	1393.2	1360.8	1293.2	1591.0
Other Expenses	688.1	798.9	749.8	887.6
Total Operating Exp.	4,091.4	4,241.9	4,036.1	4,888.8
EBITDA	1,054.8	1,147.4	953.4	1,356.4
Growth (%)	-4.1	8.8	-16.9	42.3
Depreciation	298.5	316.5	427.2	509.0
Interest	50.9	72.1	175.1	182.3
Other Income	27.3	33.5	30.0	32.0
PBT	732.7	792.2	381.2	697.1
Total Tax	209.7	187.9	95.9	175.5
PAT	523.0	604.4	285.2	521.6
Adjusted PAT	523.0	604.4	285.2	521.6
Growth (%)	-5.9	15.6	-52.8	82.9
EPS (₹)	22.2	25.7	12.1	22.1

Source: Company, ICICI Direct Research

Exhibit 23: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	23.6	23.6	23.6	23.6
Reserve and Surplus	4,436.6	4,895.0	5,109.6	5,631.2
Total Shareholders fur	4,460.1	4,918.6	5,133.1	5,654.8
Total Debt	1,618.7	3,162.4	3,840.0	3,040.0
Deferred Tax Liability	870.4	917.2	823.3	874.3
Non Current Liabilities	28.8	36.9	17.8	19.1
Total Liabilities	6,978.0	9,035.0	9,814.2	9,588.2
Assets				
Gross Block	8,593.5	9,581.4	12,731.4	12,781.4
Less: Acc Depreciatio	3,450.5	3,767.0	4,194.2	4,703.2
Net Block	5,143.1	5,814.4	8,537.2	8,078.2
Capital WIP	852.6	1,840.4	90.0	80.0
Total Fixed Assets	5,995.6	7,654.8	8,627.2	8,158.2
Investments	429.5	427.5	427.5	427.5
Inventory	559.7	645.3	587.8	650.2
Debtors	490.0	526.9	457.9	598.9
Loans and Advances	27.4	29.8	34.9	43.7
Other Current Assets	529.7	695.2	563.8	668.2
Cash	92.8	91.4	90.9	142.0
Total Current Asset	1,699.5	1,988.5	1,735.4	2,103.1
Creditors	257.2	341.4	287.1	325.1
Other Current Liability	867.5	668.3	688.8	775.5
Total Current Liabili	1,124.7	1,009.7	975.9	1,100.6
Net Current Assets	574.7	978.9	759.5	1,002.5
Application of Fund:	6,978.0	9,061.1	9,814.2	9,588.2

Source: Company, ICICI Direct Research

Exhibit 22: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	523.0	604.4	285.2	521.6
Add: Depreciation	298.5	316.5	427.2	509.0
(Inc)/dec in Current Asset	-98.7	-196.7	228.9	-309.7
Inc/(dec) in CL and Provisi	6.1	-115.0	-33.8	124.7
CF from operating activ	666.0	609.0	963.3	1,041.5
(Inc)/dec in investment	-5.3	35.4	30.0	32.0
(Inc)/dec in Fixed Assets	-1,036.9	-1,971.4	-1,425.7	-40.0
CF from investing activ	-1,042.2	-1,935.9	-1,395.7	-8.0
Issue/(Buy back) of Equity	36.9	-87.0	0.0	282.7
Inc/(dec) in loan funds	505.5	1,543.7	677.6	-800.0
Dividend paid & dividend tr	-142.0	-58.9	-70.7	-282.7
Interest paid	-50.9	-72.1	-175.1	-182.3
CF from financing activ	349.6	1,325.6	431.9	-982.3
Opening Cash	119.4	92.8	91.4	90.9
Closing Cash	92.8	91.4	90.9	142.0

Source: Company, ICICI Direct Research

Exhibit 24: Key Ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
Adjusted EPS	22.2	25.7	12.1	22.1
Cash EPS	34.9	39.1	30.2	43.7
BV	189.3	208.8	217.9	240.0
DPS	6.0	2.5	3.0	0.0
Cash Per Share	3.9	3.9	3.9	6.0
Operating Ratios (%)				
EBITDA Margin	20.5	21.3	19.1	21.7
PAT Margin	10.2	11.2	5.7	8.4
Inventory days	39.7	43.7	43.0	38.0
Debtor days	34.8	35.7	33.5	35.0
Creditor days	18.2	23.1	21.0	19.0
Return Ratios (%)				
RoE	11.7	12.3	5.6	9.2
RoCE	8.2	7.5	4.7	7.3
RoIC	9.1	9.1	4.5	7.2
Valuation Ratios (x)				
P/E	28.4	24.6	52.0	28.5
EV / EBITDA	15.6	15.7	19.6	13.2
EV / Net Sales	3.2	3.3	3.8	2.9
Market Cap / Sales	2.9	2.8	3.0	2.4
Price to Book Value	3.3	3.0	2.9	2.6
Solvency Ratios				
Debt/EBITDA	1.5	2.8	4.0	2.2
Debt / Equity	0.4	0.6	0.7	0.5
Current Ratio	1.4	1.9	1.7	1.8
Quick Ratio	0.9	1.2	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 25: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	M Cap		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)		(₹Cr)	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	
ACC*	1,269	1,380	BUY	23,850	73	48	9.1	14.1	11.1	82	87	75	17.4	10.8	13.4	11.9	7.4	9.2		
Ambuja Cem*	186	195	BUY	33,359	6.3	6.3	7.7	12.3	12.2	10.1	103	104	99	11.3	11.4	13.2	8.6	8.4	10.0	
UltraTech Cem	3,805	4,200	BUY	109,802	88	189	56	17.4	14.1	20.8	155	153	144	9.0	11.4	6.3	7.6	14.2	4.1	
Shree Cement	21,785	23,500	BUY	78,608	318	435	240	30.8	21.4	27.2	271	230	219	11.5	13.8	8.2	11.5	12.1	6.4	
Heidelberg Cen	178	200	BUY	4,034	9.7	11.8	8.7	9.8	8.1	10.8	119	108	95	21.8	22.3	19.0	20.5	20.4	16.6	
India Cement	131	100	HOLD	4,024	2.2	3.3	0.8	11.9	10.5	12.7	77	82	80	4.5	5.0	3.7	1.3	1.9	0.5	
JK Cement	1,440	1,550	HOLD	11,127	42.0	74.9	29.5	15.6	11.4	16.9	153	124	119	12.5	16.2	9.4	11.2	18.5	7.0	
JK Lakshmi Cei	260	260	BUY	3,060	6.8	22.6	6.1	10.3	6.0	9.3	48	45	44	9.3	16.8	8.6	5.2	15.5	4.1	
Mangalam Cem	195	165	HOLD	521	-3.7	29.5	30.6	19.3	4.6	4.2	42	38	34	3.2	15.9	14.2	-2.0	13.6	12.4	
Star Cement	89	82	HOLD	3,731	7.2	7.1	3.9	8.0	8.5	11.7	129	130	87	19.5	17.5	9.7	17.8	16.2	8.4	
Ramco Cement	630	730	BUY	14,999	22.2	25.7	12.1	15.6	15.7	19.6	152	138	130	8.2	7.5	4.7	11.7	12.3	5.6	
Sagar Cement	338	350	BUY	794	5.8	17.1	-4.7	8.5	6.9	13.0	34	32	33	6.4	7.2	1.7	1.6	4.2	-1.1	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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ANALYST CERTIFICATION

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