Ramco Cements (RAMCEM)

CMP: ₹ 735 | Target: ₹ 845 (15%) | Target Period: 12 months | HOLD

August 2, 2022

Result Update

Efficient fuel inventory management keeps margin stable

About the stock: Ramco Cements is the **dominant player in South India** with cement capacity of 19.4 MT across Tamil Nadu, Andhra Pradesh, Odisha and West Bengal. In terms of sales, south contributes ~71% of sales while east contribute 24%, which is served via grinding units in WB (2 MT) and AP (2 MT).

- The company also has windmill capacity of 166 MW, captive thermal power plants of 175 MW and 18 MW of WHRS
- Self-reliance on power, split grinding units near markets and focus on green power has helped the company to remain a cost efficient player in South India

Q1FY23 Results: Ramco's Q1FY23 performance was better than our estimates.

- Revenue increased 44.8% YoY, 4.1% QoQ to ₹1,779.4 crore, led by 54.6% YoY, 3.7% QoQ growth in volumes (3.31 MT)
- Cost of production broadly remained flat, a positive surprise despite higher inflationary pressure
- Net profit came in at ₹ 113.1 crore (down 33% YoY, 8.7% QoQ) better than our estimated net profit of ₹ 90 crore due to better sales volume and efficient cost management

What should investors do? Long operational history, brand equity and cost efficiency has helped the company to raise debt at competitive rates

- Post completion of capex, debt levels would peak-out. However, on near-term cost challenges, rich valuations (at $136 EV/tonne), we maintain **HOLD**

Target Price and Valuation: We value Ramco at ₹ 845 i.e.13.5x FY24E EV/EBITDA

Key triggers for future price performance:

- Incremental volumes from new units (1 MT GU, & 2.25 MT clinker unit in Kurnool) would help to grow the business from FY23E onwards
- Expect sales volume CAGR of 12.2% during FY22-24E
- Debt levels peaked out in FY22; Ramco aims to become debt free in three years thereafter

Alternate Stock Idea: Apart from Ramco, in our cement sector coverage we also like UltraTech.

- It is a market leader with strong brand in the retail segment.
- BUY with a target price of ₹ 7,600

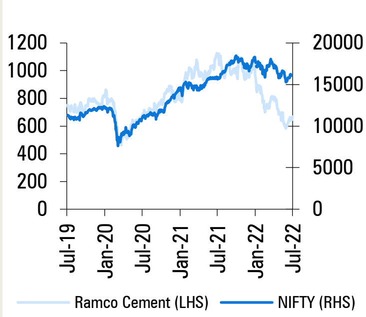
Particulars

Particulars	Amount (₹ crore)
Market Capitalisation	17316.6
Total Debt (FY22)	3930.0
Cash (FY22)	204.0
EV	21042.6
52 week H/L (₹)	1132/652
Equity Capital	23.6
Face Value (₹)	1.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	42.6	42.5	42.3	42.3
FII	8.7	8.2	7.6	6.9
DII	35.1	35.7	36.0	36.8
Others	13.6	13.7	14.0	14.0

Price Chart



Key risks

- Any delay in commissioning of new capacities
- Volatility in prices of key inputs like coal/petcoke

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ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	5146	5389	5268	5980	5.1	6981	7822	14.4
EBITDA	1055	1147	1548	1284	6.8	1283	1680	14.4
EBITDA (%)	20.5	21.3	29.4	21.5		18.4	21.5	
Adjusted PAT	523	601	761	587	3.9	585	866	21.5
EPS (₹)	22	26	32	25		25	37	
EV/EBITDA	17.8	17.7	13.1	16.4		16.2	12.0	
EV/Tonne ($)	173	159	149	155		147	136	
RoNW	11.7	12.2	13.5	9.0		8.2	10.9	
RoCE	8.2	7.5	8.6	8.9		5.7	7.7	

Source: Company, ICICI Direct Research

Key performance highlights

- Revenues came in at ₹ 1,779.4 crore (up 44.8% YoY, 4.1% QoQ), marginally above our estimates largely due to better volumes. Sales volume were up 54.6% YoY, 3.7% QoQ to 3.31 MT (vs. I-direct estimate: 3.15 MT) while realisations were down 6.3% YoY to ₹ 5376/tonne (lower than I-direct estimate: ₹ 5490/t
- Cost of production broadly remained flat. This was a positive surprise despite higher inflationary pressure while it was up 10.4% YoY to ₹ 4460/tonne. P&F cost were up only 8.3% QoQ while RM and other costs were down 10% and 11%, respectively
- EBITDA/t was down only 1% QoQ to ₹ 916/tonne (better than I-direct estimate of ₹ 807/tonne). Absolute EBITDA were at ₹ 303.1 crore, down 16.7% YoY, up 2.7% QoQ (vs. I-direct estimate: ₹ 254.3 crore)
- Net profit came in at ₹ 113.1 crore (down 33% YoY, 8.7% QoQ), better than our estimated net profit of ₹ 90 crore due to better sales volume and cost management

Key conference call highlights

- **Demand in Q1**: Demand from infra/commercial segment has grown in East India while individual housing and infra picked up in South India during Q1FY23. Eastern region contributed 30% of total sales volumes
- **Demand outlook**: For FY23E, the management has given volume growth guidance of 13-15% led by expected strong traction in eastern region. The share of premium product to increase to 30% in FY23 vs. 22% in FY22
- **Fuel cost**: Blended fuel cost for Q1FY23 was at $178/t. Fuel mix was at 54% petcoke, 30% coal, 16% alternative fuels. CIF Pet coke price peaked to $242/t in May 2022. Ramco holds four months of fuel inventory. Hence, the management expects fuel inflation to see flattish growth in Q2FY23
- **Focus on green power**: With commissioning of the third WHRS boiler in April 2022, the entire WHRS capacity of 27MW in Jayanthipuram is fully in operation. It has helped to moderate the overall power & fuel cost to some extent. The share of green power now stands at 19% vs. 14% last year which will increase further post commissioning of 12 MW WHRS capacity in Kurnool (6 MW August 2022, 6.15 MW March 2023). Post this. WHRS capacity will increase from 27 MW to 39 MW in FY23E
- **Cement Prices**: At current cost, cement prices need to increase by ₹ 35/bag to improve profitability
- **Capex update:** 1) The trial production of clinker unit at Kurnool, is successful and running well. With this, the clinkering capacity has gone up to 13.65 MT. The cement grinding facility (1 MT), 6 MW of WHRS in Kurnool will be commissioned in August 2022. After that, the installed capacity of cement will cross 20 MT. Balance 6 MW of WHRS and 18 MW of TPP will be commissioned in March 2023
- **Focus on premium products:** The company plans to expand capacity of its dry mix products in Tamil Nadu, Odisha and Andhra Pradesh with the total estimated cost of ₹ 160 crore. The two units in Tamil Nadu will be commissioned in FY23 and remaining two units at AP & Odisha will be commissioned in FY24. These four units have a revenue potential of ~₹ 100 crore (at optimal utilisation) with EBITDA margin at 20-30%
- **Capacity upgradation:** The modernisation of RR Nagar plant at a cost of ₹ 476 crore by installing a new energy efficient kiln of 3000 TPD is expected to be commissioned in FY23E. After completion of this project, the clinker capacity at RR Nagar will increase from 1.09 MTPA to 1.44 MTPA. With this upgradation, management expects annual cost savings of ₹ 50 crore

- **Capex/Debt:** Capex for FY22 was at ₹ 1816 crore. To incur capex of ₹1,400 crore (incl. maintenance capex ₹ 250 crore) in next two years. It aims to spend ₹ 850 crore (including maintenance capex of ₹150 crore) as capex in FY23 of which it has already spent ₹ 480 crore during Q1FY23. Planned capex budget for FY24 is ₹ 550 crore
- Net debt as of end-June 2022 was at ~₹ 4150 crore of which ~₹ 800 crore is working capital loan. Management aims to repay ₹500 crore (including ₹180 crore of working capital loan) of debt in FY23. The current cost of borrowings is 5.68% vs 5.5% YoY. Co is comfortable with net debt/EBITDA of 2x

Key triggers for future price performance

New capacities to bring efficiency and spur growth from FY23E onwards: Incremental volumes from new units (2 MT already commissioned and 1 MT Odisha GU commissioned in September 2020) helped to grow faster during FY21-22. Further, 1 MT GU along with 12 MW WHRS and 18 MW TPP are expected to get commissioned in FY23E. Factoring this along with expected higher realisations to offset against the cost pressure, we model 12.2% revenue CAGR during FY22-24E. While newly commissioned units would lead to a reduction in transit distance for the target markets in East India, the commissioning of total 39 MW WHRS (18 MW in FY21, 9 MW in FY22 and 12 MW in FY23E) would bring efficiencies going forward (likely cost savings of ₹ 130 crore pa).

Debt levels peak out in FY22; Aims to become debt free in three years thereafter: During FY22, the company incurred ₹ 1816 crore. Further capex of ₹1350 crore to be incurred over next two years to fund the ongoing capex (TPP 18MW WHRS 12 MW, Kurnool expansion & dry mortar). While debt levels have increased in FY22 with debt/EBITDA reaching to 3.1x, the likely debt repayment of ₹ 500 crore, lower capex and incremental cash flow from new capacities would help in bringing down debt/EBITDA to below 2.0x by FY24E. Average cost of interest on debt for the co is now reduced to 5.7% vs. 6.64% earlier. This is much lower than RoCE. So once entire capex is complete, it would help improve RoE in double digits.

Valuation & Outlook

Long history of operations, brand equity, low cost producer and a healthy b/s are the factors that helped the company to raise debt at competitive rates. We expect these factors to drive robust performance in the future as well. However, factoring the cost pressure in medium term and rich valuations, we continue to maintain our **HOLD** rating on the stock with a revised target price of ₹ 845/share (valuing company at 13.5x FY24E EV/EBITDA).

Exhibit 1: Variance Analysis

Particulars	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Net Sales	1,779.4	1,729.2	1,228.7	44.8	1,709.1	4.1	
Total cost of production	1,476.3	1,474.9	864.7	70.7	1,414.0	4.4	
EBITDA	303.1	254.3	364.0	-16.7	295.1	2.7	
EBITDA Margin (%)	17.0	14.7	29.6	-1259 bps	17.3	-23 bps	
Reported PAT	113.3	90.0	169.0	-33.0	124.1	-8.7	
Key Metrics							
Volume (MT)	3.31	3.15	2.14	54.6	3.19	3.7	Eastern region contributed 30% of total sales volumes
Realisation (₹)	5,376	5,490	5,739	-6.3	5,354	0.4	
EBITDA per Tonne (₹)	916	807	1,700	-46.1	925	-1.0	
Per tonne Analysis	**Q1FY23**	**Q4FY22**	**Q1FY22**	**YoY (%)**	**Q4FY22**	**QoQ (%)**	
Net Sales	5,376	5,490	5,739	-6.3	5,354	0.4	
Raw Material Expenses	585	732	552	6.1	652	-10.2	
Employee Expenses	341	343	490	-30.4	295	15.6	
Power and fuel	1,584	1,557	1,031	53.7	1,462	8.3	
Freight	1,299	1,339	1,217	6.7	1,291	0.7	
Others	650	711	748	-13.2	730	-11.0	
Production costs	**4,460**	**4,683**	**4,039**	**10.4**	**4,430**	**0.7**	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			
	Old	**New**	**% Change**	**Old**	**New**	**% Change**	**Comments**
Revenue	6,767.3	6,981.4	3.2	NA	7,821.9	NA	
EBITDA	1,332.3	1,282.5	-3.7	NA	1,679.5	NA	
EBITDA Margin (%)	19.7	18.4	-132 bps	NA	21.5	NA	

Source: Company, ICICI Direct Research

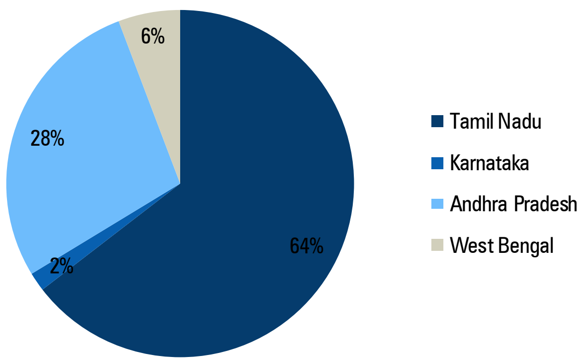
Financial story in charts

Exhibit 3: Capacity addition timeline

Integrated unit	FY19	FY20	FY21	FY22	FY23E
RR Nagar, Tamil Nadu	2.0	2.0	2.0	2.0	2.0
Alathiyur, Tamil Nadu	3.1	3.1	3.1	3.1	3.1
Ariyalur, Tamil Nadu	3.5	3.5	3.5	3.5	3.5
Jayanthipuram, AP (1.5MT clinker unit added in June-21)	3.6	3.6	3.6	3.6	3.6
Total [A]	**12.2**	**12.2**	**12.2**	**12.2**	**12.2**
Grinding Unit					
Uthiramerur, Tamil Nadu	0.5	0.5	0.5	0.5	0.5
Salem, Tamil Nadu	1.6	1.6	1.6	1.6	1.6
Kolaghat, West Bengal	1.0	**2.0**	2.2	2.2	2.2
Vizag, Andhra Pradesh	1.0	**2.0**	2.0	2.0	2.0
Jajpur Odisha Grinding Unit			**0.9**	0.9	0.9
Kurnool, Andhra Pradesh (2.25 MT Clinker tobe added in Q4FY22E)					**1.0**
Total [B]	**4.1**	**6.1**	**7.2**	**7.2**	**8.2**
Total Capacity [A+B]	**16.2**	**18.3**	**19.4**	**19.4**	**20.4**

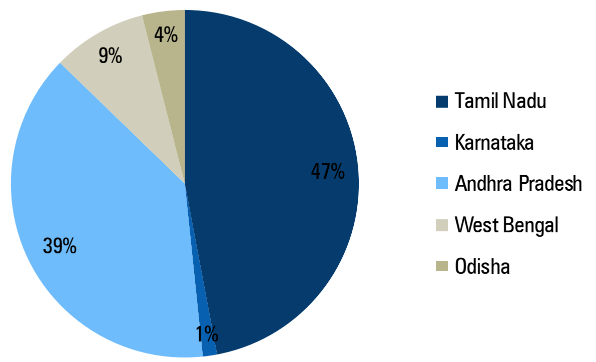
Source: Company, ICICI Direct Research

Exhibit 4: Regional capacity mix (pre-expansion)



Source: Company, ICICI Direct Research

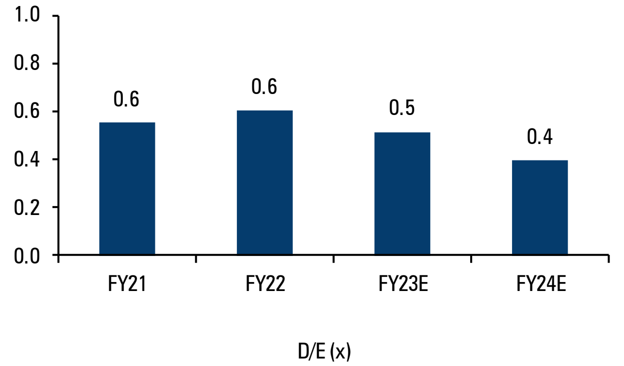
Exhibit 5: Regional capacity mix (post-expansion)



Source: Company, ICICI Direct Research

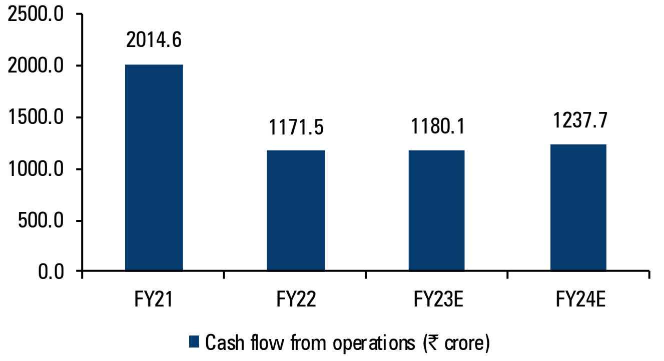
Expansion not expected to exert pressure on balance sheet

Exhibit 6: Debt to equity ratio to stay at comfortable levels



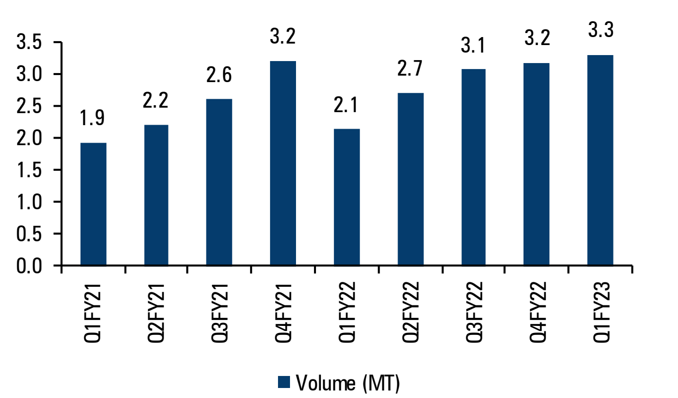
Source: Company, ICICI Direct Research

Exhibit 7: Strong operational cash flows to support growth



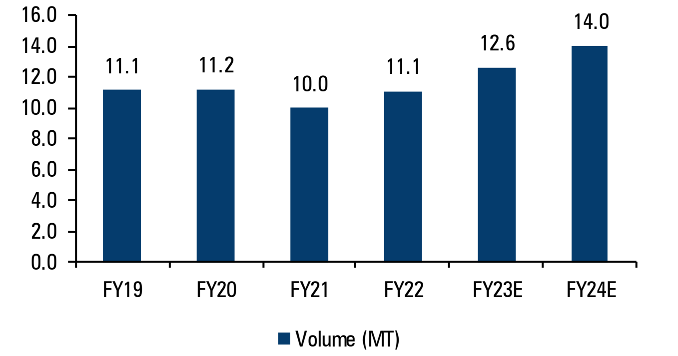
Source: Company, ICICI Direct Research

Exhibit 8: Volumes improve sharply by 54.6% YoY on low base



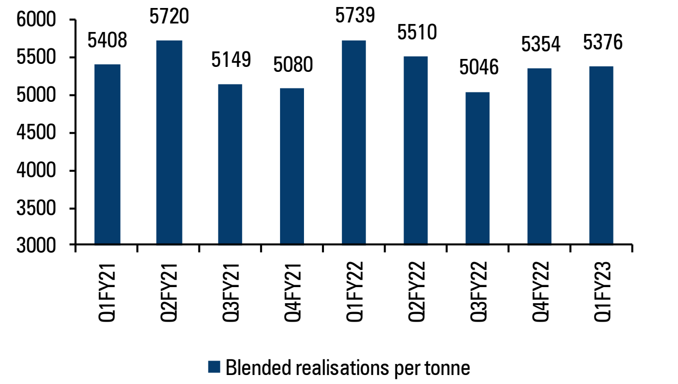
Source: Company, ICICI Direct Research

Exhibit 9: Expect volume CAGR of 12.2% during FY22-24E



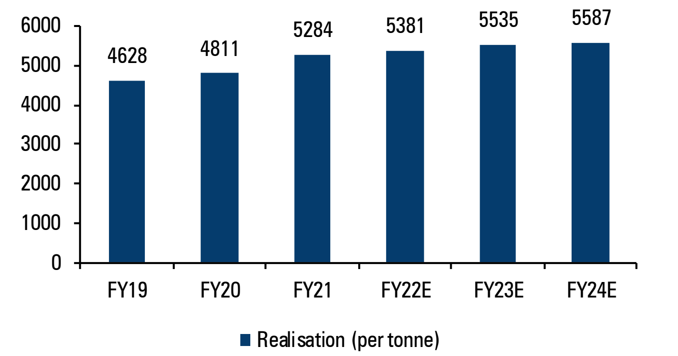
Source: Company, ICICI Direct Research

Exhibit 10: Realisations decline 6.3% YoY, flat QoQ



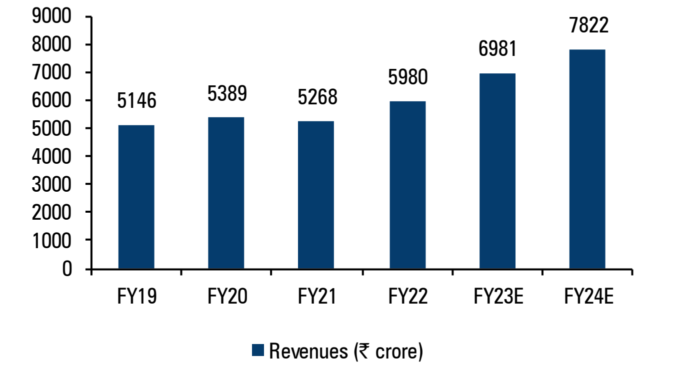
Source: Company, ICICI Direct Research

Exhibit 11: Realisations to stay higher due to underlying high cost environment



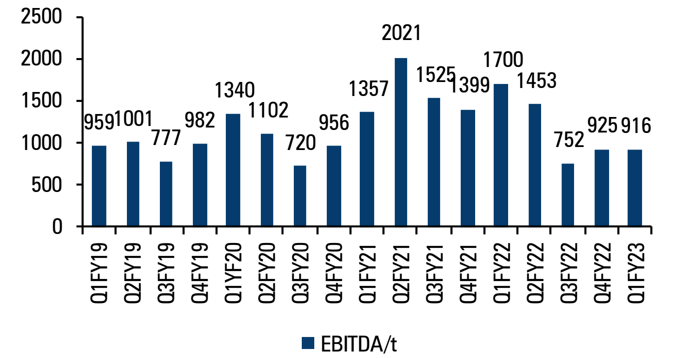
Source: Company, ICICI Direct Research

Exhibit 12: Revenues to grow at 14.4% CAGR over FY22-24E



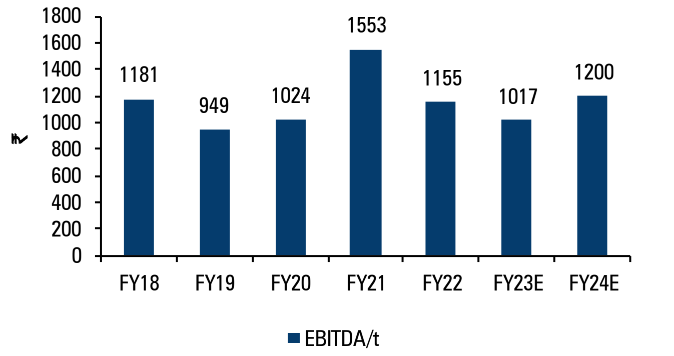
Source: Company, ICICI Direct Research

Exhibit 13: EBITDA/t stay flat QoQ despite high cost pressure



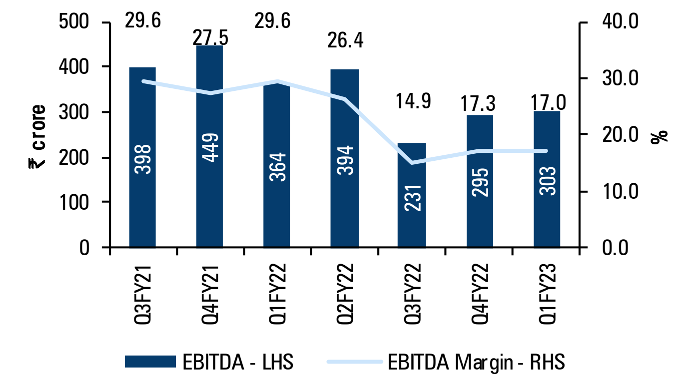
Source: Company, ICICI Direct Research

Exhibit 14: Expect EBITDA/t to moderate due to cost pressure; to improve in FY24E



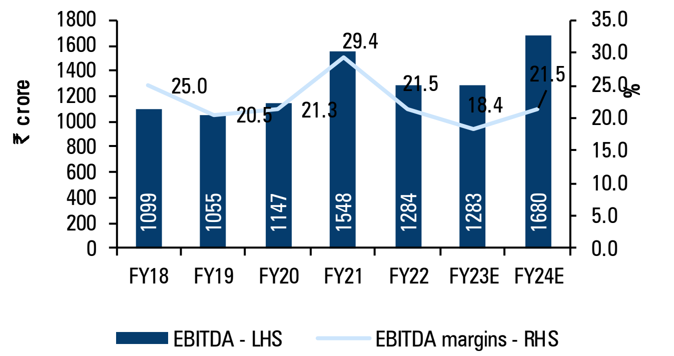
Source: Company, ICICI Direct Research

Exhibit 15: Margins declines on higher fuel prices …



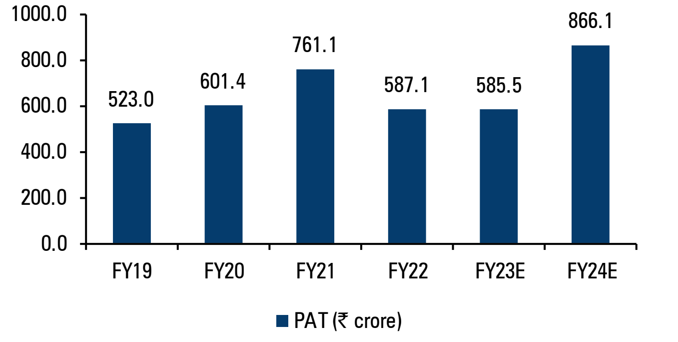
Source: Company, ICICI Direct Research

Exhibit 16: EBITDA margin to scale over 21% by FY24E



Source: Company, ICICI Direct Research

Exhibit 17: PAT to rise on back of improving operational performance completion of major capex program



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 18: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Operating Income	**5,389.3**	**5,268.4**	**5,980.0**	**6,981.4**	**7,821.9**
Growth (%)	4.7	-2.2	13.5	16.7	12.0
Raw material cost	650.7	703.5	715.5	895.5	1036.1
Employee Expenses	380.6	402.1	414.5	451.8	486.1
Power, Oil & Fuel	1050.9	794.7	1388.8	1765.9	1820.1
Freight cost	1360.8	1187.9	1389.3	1639.7	1750.1
Other Expenses	798.9	632.2	788.1	946.0	1050.1
Total Operating Exp.	4,241.9	3,720.5	4,696.1	5,698.9	6,142.4
EBITDA	**1,147.4**	**1,548.0**	**1,283.8**	**1,282.5**	**1,679.5**
Growth (%)	8.8	34.9	-17.1	-0.1	31.0
Depreciation	316.5	355.3	400.8	443.7	471.8
Interest	72.1	87.6	112.4	88.4	82.3
Other Income	33.5	34.6	30.6	32.0	32.0
PBT	792.2	1,139.7	801.2	782.4	1,157.5
Total Tax	190.9	378.6	-91.5	196.9	291.3
PAT	**601.4**	**761.1**	**892.7**	**585.5**	**866.1**
Adjusted PAT	601.4	761.1	587.1	585.5	866.1
Growth (%)	15.0	26.6	-22.9	-0.3	47.9
EPS (₹)	**25.5**	**32.3**	**37.8**	**24.8**	**36.7**

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	601.4	761.1	892.7	585.5	866.1
Add: Depreciation	316.5	355.3	400.8	443.7	471.8
(Inc)/dec in Current Assets	-196.7	165.6	-219.8	3.9	-48.9
Inc/(dec) in CL and Provisions	-115.0	487.8	227.9	61.2	-165.5
CF from operating activit	**606.0**	**2,014.6**	**1,171.5**	**1,180.1**	**1,237.7**
(Inc)/dec in investment	35.4	30.2	40.6	28.2	-68.0
(Inc)/dec in Fixed Assets	-1,971.4	-1,793.4	-1,898.8	-850.0	-550.0
CF from investing activit	**-1,935.9**	**-1,763.2**	**-1,858.2**	**-821.8**	**-618.0**
Issue/(Buy back) of Equity	-84.0	18.0	75.9	59.1	59.1
Inc/(dec) in loan funds	1,543.7	-60.7	828.2	-272.7	-500.0
Dividend paid & dividend tax	-58.9	-70.7	-70.8	-59.1	-59.1
Interest paid	-72.1	-87.6	-112.4	-88.4	-82.3
CF from financing activit	**1,328.6**	**-200.9**	**721.0**	**-361.1**	**-582.3**
Opening Cash	92.8	91.4	141.9	176.1	173.4
Closing Cash	**91.4**	**141.9**	**176.1**	**173.4**	**210.9**

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Liabilities					
Equity Capital	23.6	23.6	23.6	23.6	23.6
Reserve and Surplus	4,895.0	5,603.4	6,501.2	7,086.7	7,952.8
Total Shareholders fun	4,918.6	5,627.0	6,524.8	7,110.3	7,976.4
Total Debt	3,162.4	3,101.7	3,930.0	3,657.3	3,157.3
Deferred Tax Liability	917.2	1,087.0	824.0	977.4	1,095.1
Non Current Liabilities	36.9	38.8	51.3	17.1	17.9
Total Liabilities	**9,035.0**	**9,854.5**	**11,330.1**	**11,762.0**	**12,246.7**
Assets					
Gross Block	9,581.4	10,863.6	12,053.9	15,437.9	16,137.9
Less: Acc Depreciatior	3,767.0	4,122.3	4,523.1	4,966.9	5,438.6
Net Block	5,814.4	6,741.3	7,530.7	10,471.0	10,699.3
Capital WIP	1,840.4	2,346.2	3,034.0	500.0	350.0
Total Fixed Assets	**7,654.8**	**9,087.5**	**10,564.7**	**10,971.0**	**11,049.3**
Investments	427.5	431.9	422.0	425.8	525.8
Inventory	645.3	597.9	833.3	765.1	814.3
Debtors	500.8	375.2	349.8	382.5	407.2
Loans and Advances	29.8	27.8	20.4	20.9	23.5
Other Current Assets	695.2	689.7	689.1	809.8	836.9
Cash	91.4	141.9	176.1	173.4	210.9
Total Current Asse	**1,962.4**	**1,832.5**	**2,068.8**	**2,151.8**	**2,292.8**
Creditors	341.4	363.4	489.2	478.2	535.7
Other Current Liability	668.3	1,134.0	1,236.1	1,308.4	1,085.4
Total Current Liabi	**1,009.7**	**1,497.5**	**1,725.3**	**1,786.6**	**1,621.1**
Net Current Assets	952.8	335.0	343.4	365.2	671.6
Application of Fun	**9,035.0**	**9,854.5**	**11,330.1**	**11,762.0**	**12,246.7**

Source: Company, ICICI Direct Research

Exhibit 21: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	25.5	32.3	37.8	24.8	36.7
Cash EPS	39.0	47.3	54.7	43.6	56.6
BV	208.8	238.5	276.1	300.9	337.6
DPS	2.5	3.0	3.0	2.5	2.5
Cash Per Share	3.9	6.0	7.5	7.3	8.9
Operating Ratios (%)					
EBITDA Margin	21.3	29.4	21.5	18.4	21.5
PAT Margin	11.2	14.4	9.8	8.4	11.1
Inventory days	43.7	41.4	50.9	40.0	38.0
Debtor days	35.7	26.0	21.3	20.0	19.0
Creditor days	23.1	25.2	29.9	25.0	25.0
Return Ratios (%)					
RoE	12.2	13.5	9.0	8.2	10.9
RoCE	7.5	8.6	8.9	5.7	7.7
RoIC	9.0	11.1	12.0	5.8	7.9
Valuation Ratios (x)					
P/E	28.8	22.8	19.5	29.7	20.1
EV / EBITDA	17.7	13.1	16.4	16.2	12.0
EV / Net Sales	3.8	3.8	3.5	3.0	2.6
Market Cap / Sales	3.2	3.3	2.9	2.5	2.2
Price to Book Value	3.5	3.1	2.7	2.4	2.2
Solvency Ratios					
Debt/EBITDA	2.8	2.0	3.1	2.9	1.9
Debt / Equity	0.6	0.6	0.6	0.5	0.4
Current Ratio	1.9	1.1	1.1	1.1	1.3
Quick Ratio	1.2	0.7	0.6	0.7	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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