Ramco Cements (RAMCEM)

ICICI direct Research

CMP: ₹ 648 | Target: ₹ 600 (-7%) | Target Period: 12 months | REDUCE

November 10, 2022

Result Update

Ongoing capex to keep debt at elevated levels…

About the stock: Ramco Cements is the **dominant player in South India** with cement capacity of 21 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 West Bengal (2 MT) and Andhra Pradesh (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

Q2FY23 Results: Ramco Cements' performance remained weak for Q2FY23.

- While revenues grew 20.1% YoY to ₹ 1793.7 crore, fuel cost almost doubled YoY
- Further, higher variable cost at its new plant in Kurnool due to low operating leverage and without WHRS led to a sharp fall in EBITDA
- As a result, EBITDA and PAT both declined 52.3%, 97.6% YoY to ₹ 187.7 crore, ₹ 12.2 crore, respectively

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

- However, given the change in stance on capex guidance amid high leverage position and volatile input cost environment, we further downgrade our rating from HOLD to **REDUCE** rating

Target Price and Valuation: We value Ramco at ₹ 600 i.e.11x FY24E EV/EBITDA

Key triggers for future price performance:

- Incremental volumes from new units (1 MT GU and 2.25 MT clinker unit in Kurnool) would help to grow the business, going forward
- Expect sales volume CAGR of 19.2% during FY22-24E while margins to stabilise at 19% levels in FY24E
- However, debt levels to stay elevated given its aggressive capex guidance

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 ₹ 7,700/share

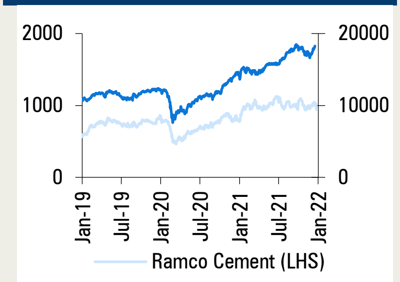
Particulars

Particulars	Amount (₹ crore)
Market Capitalisation	15172.6
Total Debt (FY22)	3930.0
Cash (FY22)	204.0
EV	18898.6
52 week H/L (₹)	1132/652
Equity Capital	23.6
Face Value (₹)	1.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	42.5	42.3	42.3	42.3
FII	8.2	7.6	6.9	6.6
DII	35.7	36.0	36.8	37.1
Others	13.7	14.0	14.0	13.9

Price Chart



Key risks

- Any steep cement price hikes remains upside risk
- 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	7510	8782	21.2
EBITDA	1055	1147	1548	1284	6.8	1089	1670	14.1
EBITDA (%)	20.5	21.3	29.4	21.5		14.5	19.0	
Adjusted PAT	523	601	761	587	3.9	345	730	11.5
EPS (₹)	22	26	32	25		15	31	
EV/EBITDA	15.9	16.0	11.8	14.8		18.2	11.8	
EV/Tonne ($)	155	143	134	140		140	133	
RoNW	11.7	12.2	13.5	9.0		5.0	9.6	
RoCE	8.2	7.5	8.6	8.9		4.4	7.0	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volume were up 22.1% YoY, flat QoQ to 3.31 MT (vs. I-direct estimate: 3.15 MT). Realisations broadly remain steady (up 0.8% QoQ and remained better than estimates
- Blended fuel consumption per ton is equivalent to $199 vs. $97 last year. As a result, P&F cost per tonne of cement for Q2FY23 has sharply increased to ₹ 2,013 from ₹ 1,056 in Q2FY22
- Further, higher variable cost in Kolimigundla (Kurnool) due to low operating leverage and without WHRS led to a sharp fall in EBITDA that declined 52.3% YoY to ₹ 187.7 crore. EBITDA/t was down 61% YoY, 38% QoQ to ₹ 567/tonne (vs. I-direct estimate of ₹ 639/tonne)
- Finance cost & depreciation increased due to commissioning of clinkering units in JPM Line III & Kolimigundala
- Hence, net profits declined sharply by 97.6% YoY, 89.2% QoQ to ₹12.2 crore on lower margins and higher interest costs
- During Q2, the company incurred ₹ 504 crore towards capex. The net debt for the company as on September 2022 is ₹ 4,741 crore, out of which ₹ 724 crore is short-term loan. The average cost of interest-bearing borrowings for Q2FY23 increased to 6.42% from 5.47% in Q2FY22

Exhibit 1: Quarterly financials and per tonne data

Particulars	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Net Sales	1,793.7	1,658.3	1,493.1	20.1	1,779.4	0.8	
Total cost of production	1,606.0	1,456.9	1,099.3	46.1	1,476.3	8.8	
EBITDA	187.7	201.4	393.8	-52.3	303.1	-38.1	
EBITDA Margin (%)	10.5	12.1	26.4	-1591 bps	17.0	-657 bps	
Reported PAT	12.2	40.3	517.1	-97.6	113.3	-89.2	
Key Metrics							
Volume (MT)	3.31	3.15	2.71	22.1	3.31	0.0	
Realisation (₹)	5,419	5,264	5,510	-1.6	5,376	0.8	
EBITDA per Tonne (₹)	567	639	1,453	-61.0	916	-38.1	
Per tonne Analysis	**Q2FY23**	**Q2FY23E**	**Q2FY22**	**YoY (%)**	**Q1FY23**	**QoQ (%)**	
Net Sales	5,419	5,264	5,510	-1.6	5,376	0.8	
Raw Material Expenses	645	590	665	-3.0	585	10.2	
Employee Expenses	357	355	404	-11.7	341	4.5	
Power and fuel	2,013	1,690	1,056	90.6	1,584	27.1	Blended fuel consumption per tonne is equivalent to $199 for Q2 against $97 during the corresponding period of last year. Since overall fuel prices have peaked during the CV, the power & fuel cost per ton of cement for Q2 has sharply increased
Freight	1,222	1,350	1,233	-0.9	1,299	-6.0	
Others	616	640	698	-11.8	650	-5.2	
Production costs	**4,852**	**4,625**	**4,056**	**19.6**	**4,460**	**8.8**	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	Comments
Revenue	6,891.4	7,510.2	9.0	8,281.5	8,782.5	NA	
EBITDA	1,282.5	1,088.7	-15.1	1,679.5	1,670.2	NA	
EBITDA Margin (%)	18.6	14.5	-411 bps	20.3	19.0	NA	

Source: Company, ICICI Direct Research

Valuation & Outlook

Long operational history, brand equity and cost efficiency has helped the company to raise debt at competitive rates. However, given the change in stance on capex guidance amid high leverage position and volatile input cost environment, we, further downgrade our rating to **REDUCE** from HOLD rating. We value Ramco at ₹ 600 i.e.11x FY24E EV/EBITDA.

Key conference call highlights

- **Demand in Q2**: Volume growth was healthy at 22% YoY (flat QoQ) to 3.31 MT with 70% clinker utilisation. Infrastructure demand was the primary demand driver in east and south India in Q2FY23
- **Demand outlook**: The company has maintained double digit volume growth guidance led by ramping up of the newly-commissioned capacities. On the pricing front, the company expects prices to be under pressure as capacity addition is gaining pace, which, in turn, would lead to competition for market share gains between incumbent players
- **Fuel cost**: The blended fuel cost for Q2FY23 was at $199/t vs. $178 in Q1FY23 and $97/t in Q2FY22. Fuel mix was at 54% petcoke, 34% coal and 12% alternative fuels. Given the volatility in fuel prices, the company expects cost to stay elevated in Q4FY23 after cooling off a bit in Q3FY23
- **Focus on green power**: With commissioning of the third WHRS boiler in April 2022, the entire WHRS capacity of 27 MW in Jayanthipuram is fully in operation. It has helped to moderate the overall power & fuel cost to some extent. The share of green power is now at 22% vs. 15% last year, which will increase further post commissioning of 12 MW WHRS capacity in Kurnool (6 MW November 2022, 6.15 MW March 2023). Post this, WHRS capacity will increase from 27 MW to 39 MW in FY23E
- **Cement Prices**: Witnessed price hikes of ₹ 15-25/bag from September 2022-exit in south. There could be fresh price hikes in Kerala (₹ 15/bag) and Karnataka from mid-November
- **Capex update:** The management nearly doubled its capex guidance for FY23E and FY24E to ₹ 1717 crore and ₹ 892 crore, respectively, vs. ₹ 850 crore and ₹ 550 crore earlier. This is largely due to preliminary work at Kurnool unit (likely expansion of unit), expansion in Odisha, Karnataka market to protect the market share led by heightened competitive intensity. The capex details are: 1) the cement production in Kolimigundala (Kurnool AP) has commenced from September 2022 onwards, 2) The 6 MW of WHRS in Kolimigundala will be commissioned in November 2022. Balance 6 MW of WHRS will be commissioned in March 2023. TPP of 18 MW and railway siding will be commissioned in 2023-24, 3) The company now propose to increase the grinding capacity of Haridaspur plant (Odisha), Odisha by 0.9 MTPA at a cost of only ₹ 130 crore since other infrastructure is already in place, thereby doubling its capacity to 1.8 MTPA, 4) to spend ₹ 350 crore towards land acquisition for setting up a cement plant near Bengaluru
- **Focus on premium products:** The company will expand the capacity of its dry mix products in Tamil Nadu, Odisha and Andhra Pradesh with the total estimated cost of ₹160 crore. The 2 units in Tamilnadu will be commissioned in FY23 and remaining 2 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 between 20-30%.
- **Capacity upgradation:** The modernisation of RR Nagar plant will be commissioned before Mar-23. After completion of this project, the clinker capacity at RR Nagar will increase from 1.09 MTPA to 1.44 MTPA. The management expects annual cost savings of ₹50 crore. With regard to expansion of capacity of its dry mix products, two units in Tamilnadu are ready for commissioning and market trials for products are in progress. The remaining two units in AP & Odisha will be commissioned during 2023-24
- **Capex/Debt:** Capex for FY22 was at ₹ 1816 crore. To incur capex of ₹ 2609 crore in next two years vs. earlier guidance of ₹ 1,400 crore (including maintenance capex ₹ 350 crore). TRCL aims to spend ₹ 1711 crore (including maintenance capex of ₹ 202 crore) as capex in FY23 of which it has already spent ₹ 986 crore during H1FY23. Planned capex budget for FY24E is ₹ 892 crore. Net debt increased by ~₹ 600 QoQ to ₹ 4,741 crore due to higher working capital requirements. Average cost of interest-bearing borrowings during Q2FY23 was 6.4% vs. 5.5%

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 21.2% 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 per annum).

Debt levels to stay high till FY24E: The management has nearly doubled its capex guidance for FY23E and FY24E to ₹ 1717 crore and ₹ 892 crore, respectively, vs. ₹ 850 crore and ₹ 550 crore earlier. This is largely due to the preliminary work at the Kurnool unit (likely expansion of unit), expansion in Odisha and Karnataka market in order to protect the market share led by heightened competitive intensity. During the quarter, net debt increased by ~₹ 600 QoQ to ₹ 4,741 crore due to higher working capital requirements. With total capex of ₹ 2600 crore against expected operating CF of ₹ 2033 crore, we expect debt levels to continue to stay at elevated levels only against our earlier expectation of 20% reduction in the debt during the same period.

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	2.6
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**	**12.8**
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 Q4FY22)					**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**	**21.0**

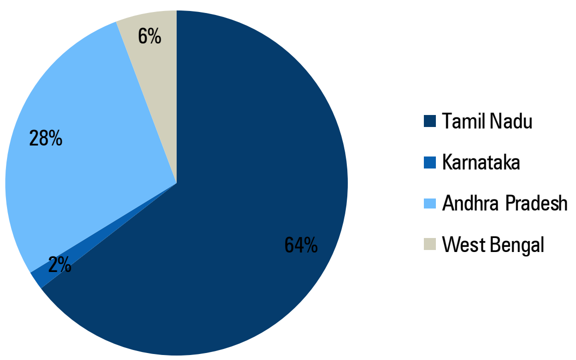
Source: Company, ICICI Direct Research

Exhibit 4: Detailed capex break-up

Particulars	Spent ₹ in Crores		Guidance ₹ in Crores	
	Q2FY23	H1FY23	H2FY23	FY24
Kolimigundala Integrated Unit				
▪ Cement plant, WHRS,TPP	115	264	60	100
▪ Railway Siding	28	51	91	100
▪ Township	13	25	18	-
RR Nagar Modernization	139	274	125	40
Limestone Benefication Plant at RRN	18	29	15	7
Infrastructure in Budawada Mines	48	72	72	20
Dry Mortar capacity expansion	26	60	80	75
Jayanthipuram Line III	14	47	37	-
Mining land and development	23	42	25	50
Lands for Bommanahalli project	-	-	100	250
Expansion of Odisha GU	-	-	30	100
Maintenance Capex	80	122	78	150
Total	**504**	**986**	**731**	**892**

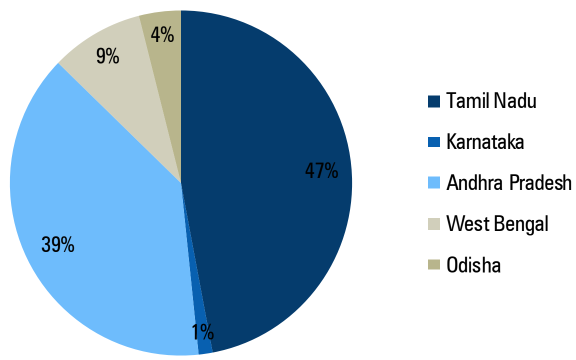
Source: Company, ICICI Direct Research

Exhibit 5: Regional capacity mix (pre-expansion)



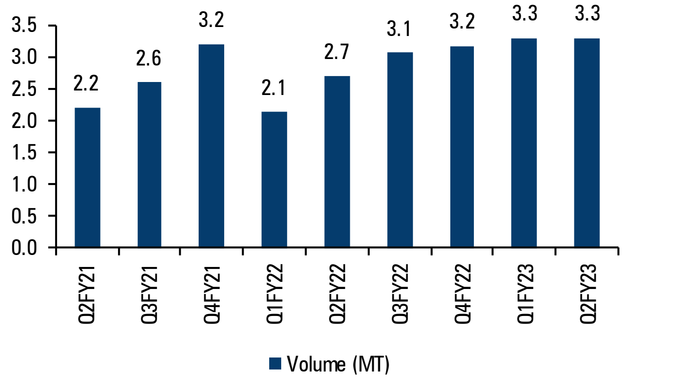
Source: Company, ICICI Direct Research

Exhibit 6: Regional capacity mix (post-expansion)



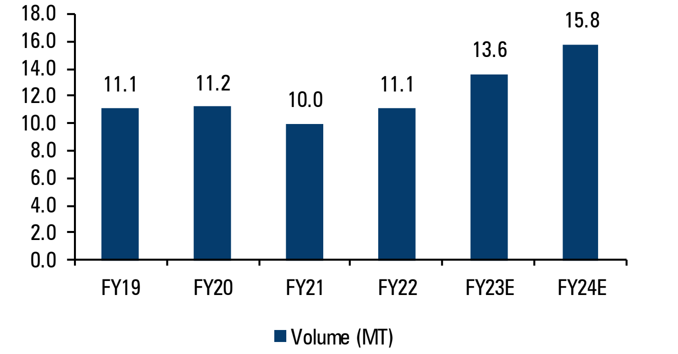
Source: Company, ICICI Direct Research

Exhibit 7: Volumes grows 22.1% YoY in Q2FY23



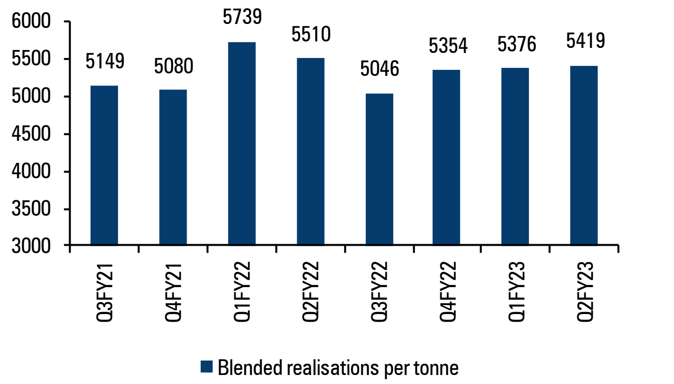
Source: Company, ICICI Direct Research

Exhibit 8: Volumes to see sharp growth from H2FY23E led by new capacity addition



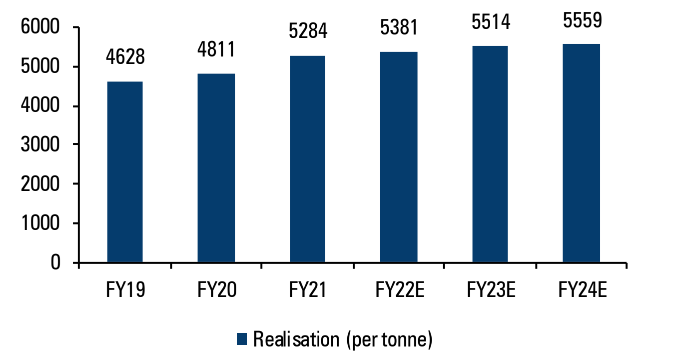
Source: Company, ICICI Direct Research

Exhibit 9: Realisations broadly remain stable



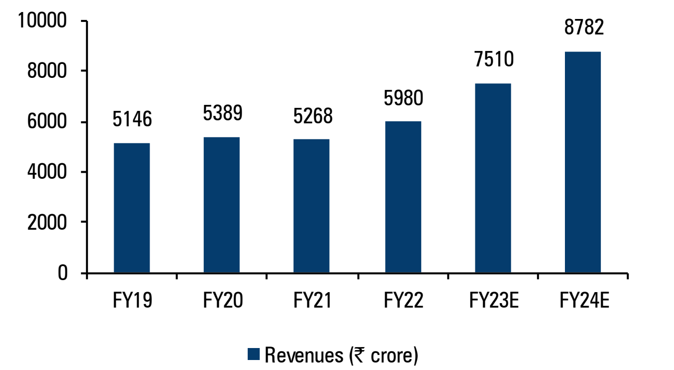
Source: Company, ICICI Direct Research

Exhibit 10: Realisations to stay firm led by underlying high cost environment



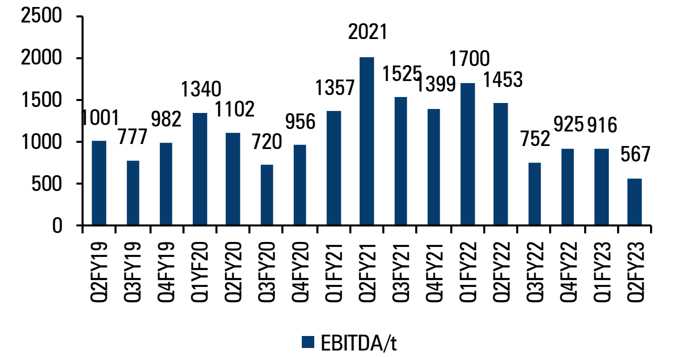
Source: Company, ICICI Direct Research

Exhibit 11: Revenues to grow at 21.2% CAGR over FY22-24E



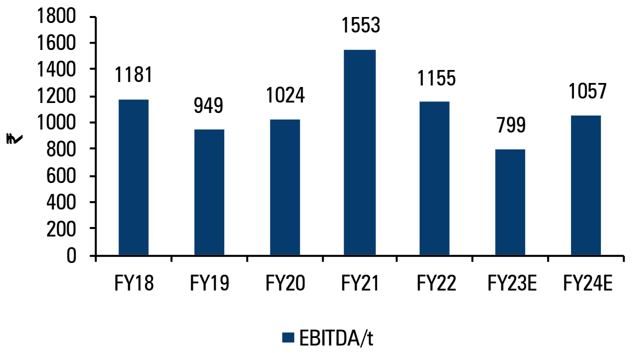
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t declines YoY on rising cost pressure



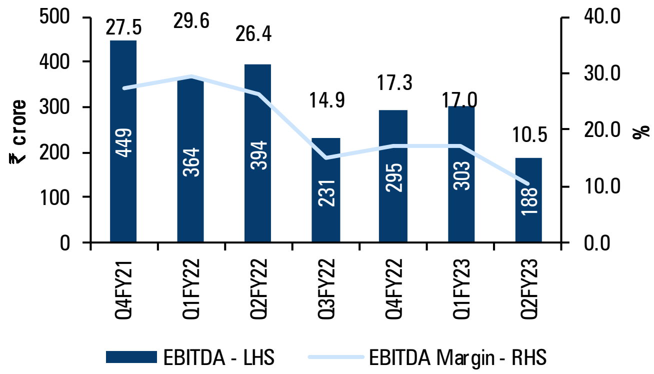
Source: Company, ICICI Direct Research

Exhibit 13: Expect EBITDA/t to moderate due to cost pressure; to improve in FY24E



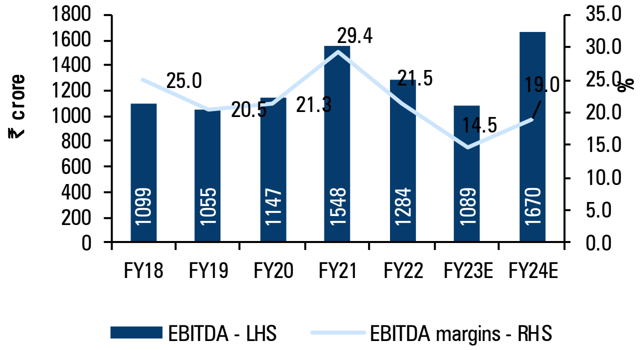
Source: Company, ICICI Direct Research

Exhibit 14: Margins decline on higher fuel prices …



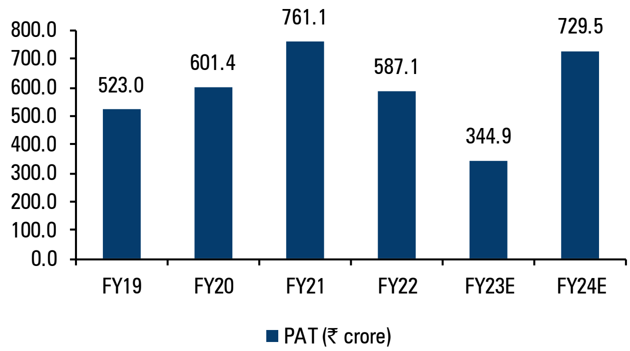
Source: Company, ICICI Direct Research

Exhibit 15: EBITDA margin to stabilise to 19% by FY24E



Source: Company, ICICI Direct Research

Exhibit 16: PAT to remain under pressure due to volatile cost environment, higher capex



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 17: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Operating Income	**5,389.3**	**5,268.4**	**5,980.0**	**7,510.2**	**8,782.5**
Growth (%)	4.7	-2.2	13.5	25.6	16.9
Raw material cost	650.7	703.5	715.5	858.1	1169.1
Employee Expenses	380.6	402.1	414.5	455.9	492.4
Power, Oil & Fuel	1050.9	794.7	1388.8	2451.6	2211.9
Freight cost	1360.8	1187.9	1389.3	1702.5	1974.9
Other Expenses	798.9	632.2	788.1	953.4	1263.9
Total Operating Exp.	4,241.9	3,720.5	4,696.1	6,421.5	7,112.2
EBITDA	**1,147.4**	**1,548.0**	**1,283.8**	**1,088.7**	**1,670.2**
Growth (%)	8.8	34.9	-17.1	-15.2	53.4
Depreciation	316.5	355.3	400.8	443.7	508.8
Interest	72.1	87.6	112.4	216.1	218.6
Other Income	33.5	34.6	30.6	32.0	32.0
PBT	792.2	1,139.7	801.2	460.9	974.9
Total Tax	190.9	378.6	-91.5	116.0	245.4
PAT	**601.4**	**761.1**	**892.7**	**344.9**	**729.5**
Adjusted PAT	601.4	761.1	587.1	344.9	729.5
Growth (%)	15.0	26.6	-22.9	-41.3	111.5
EPS (₹)	**25.5**	**32.3**	**37.8**	**14.6**	**30.9**

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	601.4	761.1	892.7	344.9	729.5
Add: Depreciation	316.5	355.3	400.8	443.7	508.8
(Inc)/dec in Current Assets	-196.7	165.6	-219.8	-111.6	-126.6
Inc/(dec) in CL and Provisions	-115.0	487.8	227.9	99.1	-110.4
CF from operating activit	**606.0**	**2,014.6**	**1,171.5**	**1,029.8**	**1,284.5**
(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	-1,711.0	-900.0
CF from investing activit	**-1,935.9**	**-1,763.2**	**-1,858.2**	**-1,682.8**	**-968.0**
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	927.3	-200.0
Dividend paid & dividend tax	-58.9	-70.7	-70.8	-59.1	-59.1
Interest paid	-72.1	-87.6	-112.4	-216.1	-218.6
CF from financing activit	**1,328.6**	**-200.9**	**721.0**	**711.2**	**-418.6**
Opening Cash	92.8	91.4	141.9	176.1	234.4
Closing Cash	**91.4**	**141.9**	**176.1**	**234.4**	**132.3**

Source: Company, ICICI Direct Research

Exhibit 19: 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	6,846.1	7,575.6
Total Shareholders fun	4,918.6	5,627.0	6,524.8	6,869.7	7,599.2
Total Debt	3,162.4	3,101.7	3,930.0	4,857.3	4,657.3
Deferred Tax Liability	917.2	1,087.0	824.0	1,051.4	1,229.5
Non Current Liabilities	36.9	38.8	51.3	17.6	18.9
Total Liabilities	**9,035.0**	**9,854.5**	**11,330.1**	**12,796.0**	**13,504.9**
Assets					
Gross Block	9,581.4	10,863.6	12,053.9	15,848.9	16,848.9
Less: Acc Depreciation	3,767.0	4,122.3	4,523.1	4,966.9	5,475.6
Net Block	5,814.4	6,741.3	7,530.7	10,882.0	11,373.2
Capital WIP	1,840.4	2,346.2	3,034.0	950.0	850.0
Total Fixed Assets	**7,654.8**	**9,087.5**	**10,564.7**	**11,832.0**	**12,223.2**
Investments	427.5	431.9	422.0	425.8	525.8
Inventory	645.3	597.9	833.3	823.0	914.3
Debtors	500.8	375.2	349.8	411.5	457.2
Loans and Advances	29.8	27.8	20.4	22.5	26.3
Other Current Assets	695.2	689.7	689.1	871.2	939.7
Cash	91.4	141.9	176.1	234.4	132.3
Total Current Asse	**1,962.4**	**1,832.5**	**2,068.8**	**2,362.6**	**2,469.9**
Creditors	341.4	363.4	489.2	514.4	601.5
Other Current Liability	668.3	1,134.0	1,236.1	1,310.1	1,112.5
Total Current Liabi	**1,009.7**	**1,497.5**	**1,725.3**	**1,824.5**	**1,714.0**
Net Current Assets	952.8	335.0	343.4	538.2	755.9
Application of Fun	**9,035.0**	**9,854.5**	**11,330.1**	**12,796.0**	**13,504.9**

Source: Company, ICICI Direct Research

Exhibit 20: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)					
Adjusted EPS	25.5	32.3	37.8	14.6	30.9
Cash EPS	39.0	47.3	54.7	33.4	52.4
BV	208.8	238.5	276.1	290.7	321.6
DPS	2.5	3.0	3.0	2.5	2.5
Cash Per Share	3.9	6.0	7.5	9.9	5.6
Operating Ratios (%)					
EBITDA Margin	21.3	29.4	21.5	14.5	19.0
PAT Margin	11.2	14.4	9.8	4.6	8.3
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	5.0	9.6
RoCE	7.5	8.6	8.9	4.4	7.0
RoIC	9.0	11.1	12.0	4.6	7.3
Valuation Ratios (x)					
P/E	25.2	20.0	17.0	44.1	20.9
EV / EBITDA	15.9	11.7	14.7	18.2	11.8
EV / Net Sales	3.4	3.4	3.2	2.6	2.2
Market Cap / Sales	2.8	2.9	2.5	2.0	1.7
Price to Book Value	3.1	2.7	2.3	2.2	2.0
Solvency Ratios					
Debt/EBITDA	2.8	2.0	3.1	4.5	2.8
Debt / Equity	0.6	0.6	0.6	0.7	0.6
Current Ratio	1.9	1.1	1.1	1.2	1.4
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%;

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