Ramco Cements (RAMCEM)

ICICI direct Research

CMP: ₹707 | Target: ₹ 760 (7.5%) | Target Period: 12 months | HOLD

February 8, 2023

Result Update

ICICI Securities – Retail Equity Research

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 spread across Tamil Nadu, Andhra Pradesh, Odisha and West Bengal. In terms of sales, south contributes ~71% of sales while east contributes 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

Q3FY23 Results: The performance improved sequentially led by cost stabilisation with respect to new plant in Kurnool and the same remained ahead of our estimates.

- Revenues came in at ₹ 2011.6 crore (up 29.9% YoY, 12.1% QoQ), that were higher than our estimates (₹ 1943.0 crore) largely due to better realisations
- Absolute EBITDA/tonne came in at ₹ 793/tonne (vs. I-direct estimate ₹ 753/tonne). It was up 3.4% YoY, 39.8% QoQ.
- Net profits were lower by 20.5% YoY to ₹ 65.6 crore (marginally lower than I-direct estimate ₹ 72.1 crore) on higher interest & depreciation costs

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

- While the levers are there for margin expansion and growth, the higher capex would keep debt at elevated levels thereby impacting return ratios. We now change our rating to **HOLD** from REDUCE on the stock.

Target Price and Valuation: We value Ramco at ₹ 760 i.e. 13.0x 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, going forward
- Expect sales volume CAGR of 18.6% during FY22-24E while margins to stabilise at 20% 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 ₹ 8,050/share

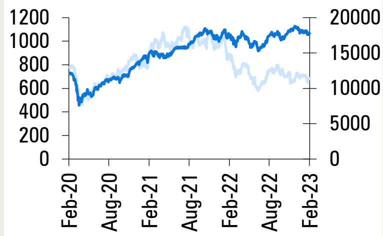
Particulars

Particulars	Amount (₹ crore)
Market Capitalisation	16656.9
Total Debt (FY22)	3930.0
Cash (FY22)	204.0
EV	20382.9
52 week H/L (₹)	1132/652
Equity Capital	23.6
Face Value (₹)	1.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	42.3	42.3	42.3	42.3
FII	7.6	6.9	6.6	7.1
DII	36.0	36.8	37.1	32.3
Others	14.0	14.0	13.9	18.3

Price Chart



Key risks

- Any steep cement price hikes remain upside risk
- Volatility in prices of key inputs like coal/petcoke

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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	8407	18.6
EBITDA	1055	1147	1548	1284	6.8	1089	1706	15.3
EBITDA (%)	20.5	21.3	29.4	21.5		14.5	20.3	
Adjusted PAT	523	601	761	587	3.9	325	756	13.5
EPS (₹)	22	26	32	25		14	32	
EV/EBITDA	17.2	17.2	12.7	15.9		19.5	12.3	
EV/Tonne ($)	167	154	145	150		150	141	
RoNW	11.7	12.2	13.5	9.0		4.7	9.9	
RoCE	8.2	7.5	8.6	8.9		4.2	7.2	

Source: Company, ICICI Direct Research

Key performance highlights

- Sales volume were up 18.6% YoY, 7.9% QoQ to 3.57 MT (vs. I-direct estimate: 3.6 MT). Realisations were up 9.5% YoY, 4.0% QoQ to ₹ 5635/t, better than estimates of ₹ 5397/t
- Fuel cost declined sequentially by 2.3% to ₹ 1967/t. However, it still remained higher by 42.6% on a YoY basis. The blended fuel consumption per ton is equivalent to $191 vs. $149 last year
- Imposition of busy season surcharge by railway from October 1 led to 11% QoQ jump in freight cost to ₹ 1359/t. It was up 6.9% YoY. However, with better realisations, the company managed to mitigate the margin pressure with sequential margin expansion of 361 bps to 14.1%. On a YoY basis, it was down 83 bps only
- During Q3, the company incurred ₹ 390 crore towards capex, including for the above-mentioned ongoing capacity expansion programme. The net debt for the company as on December 31, 2022 was ₹ 4,556 crore, out of which ₹ 564 crore is short-term loan. Average cost of interest-bearing borrowings for Q3 of current year is increased to 7.13% from 5.44% in Q3 of the previous year

Exhibit 1: Variance Analysis

Particulars	Q3FY23	Q2FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Net Sales	2,011.6	1,943.0	1,549.1	29.9	1,793.7	12.1	
Total cost of production	1,728.5	1,672.0	1,318.2	31.1	1,606.0	7.6	
EBITDA	283.1	271.0	230.9	22.6	187.7	50.8	
EBITDA Margin (%)	14.1	13.9	14.9	-83 bps	10.5	361 bps	
Reported PAT	65.6	72.1	82.6	-20.5	12.2	437.0	
Key Metrics							
Volume (MT)	3.57	3.60	3.01	18.6	3.31	7.9	
Realisation (₹)	5,635	5,397	5,146	9.5	5,419	4.0	
EBITDA per Tonne (₹)	793	753	767	3.4	567	39.8	
Per tonne Analysis	**Q3FY23**	**13FY23E**	**Q3FY22**	**YoY (%)**	**Q2FY23**	**QoQ (%)**	
Net Sales	5,635	5,397	5,146	9.5	5,419	4.0	
Raw Material Expenses	528	499	695	-24.0	645	-18.1	
Employee Expenses	334	335	351	-5.0	357	-6.5	
Power and fuel	1,967	1,850	1,379	42.6	2,013	-2.3	The blended fuel consumption per ton is equivalent to $191 vs. $149 during the corresponding previous period as the rupee also depreciated by 10%. Since coal and pet coke prices have peaked during the calendar year, the power & fuel cost remained higher during the current
Freight	1,359	1,310	1,271	6.9	1,222	11.3	Re-imposition of busy season surcharge by rail led to increase in freight cost
Others	654	650	683	-4.4	616	6.2	
Production costs	**4,842**	**4,644**	**4,379**	**10.6**	**4,852**	**-0.2**	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY23E			FY24E			
	Old	**New**	**% Change**	**Old**	**New**	**% Change**	**Comments**
Revenue	7,391.4	7,510.2	1.6	8,281.5	8,406.6	1.5	
EBITDA	1,082.5	1,088.7	0.6	1,679.5	1,705.6	1.6	
EBITDA Margin (%)	14.6	14.5	-15 bps	20.3	20.3	1 bps	

Source: Company, ICICI Direct Research

Key conference call highlights

- **Demand in Q3 & Outlook**: Volume growth was healthy at 18.6% YoY (7.9% QoQ) to 3.57 MT with 70% clinker utilisation. Infrastructure demand was the primary demand driver in East and South India in Q3FY23. The utilisation of Kurnool plant (new unit) was at 85% in the last two months. The demand can likely grow by double digit in FY24E
- **Fuel cost**: The blended fuel consumption per ton is equivalent to $191 vs. $149 last year. Petcoke share increased to 59% from 54% QoQ. Blended fuel cost per Kcal: Q3FY23: ₹ 2.43; 9MFY23: ₹ 2.35. Given the volatility in fuel prices, the company expects cost to stay at this level in Q4FY23
- **Focus on green power**: 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 (5 MW November 22, 3 MW in February 2023 and 4 MW in May 2023). Post this. WHRS capacity will increase from 27 MW to 39 MW
- **Capex update:** The management has maintained its capex guidance given in Q2 where it nearly doubled its capex guidance for FY23E and FY24E to ₹ 1717 crore and ₹ 892 crore, respectively vs. ₹ 850 crore and ₹ 550 crore, respectively, earlier. This is largely due to the preliminary work at the **Kurnool unit** (likely expansion of unit), expansion in **Odisha and Karnataka (greenfield)** market in order to protect the market share led by heightened competitive intensity. The capex details are as under: **1)** the cement production in Kolimigundla (Kurnool AP) has commenced from September 2022 onwards. **2)** The 6 MW of WHRS in Kolimigundla was 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)** To increase the grinding capacity of Haridaspur plant (Odisha), **Odisha** by 0.9 MTPA at a cost of only ₹ 130 crore since other infrastructures are already in place, thereby doubling its capacity to 1.8 MTPA **4)** To spend ₹ 350 crore towards land acquisition for setting up cement plant near Bengaluru
- **Focus on premium products:** The share of premium products during Q3 was at 26% vs. 25% last quarter and 23% last year. The **company to expand the capacity of its dry mix product**s in Tamil Nadu, Odisha and Andhra Pradesh at a total estimated cost of ₹ 160 crore. The two units in Tamil Nadu will be commissioned in FY23 (one commissioned in December 2022, another to get commissioned in February 2023) and remaining two units in Andhra Pradesh & 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** will be commissioned before March 2023. 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
- **Capex/Debt:** Capex for FY22 was at ₹ 1816 crore. To incur capex of ₹ 2609 crore in the 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 ₹ 1376 crore during 9MFY23. Planned capex budget for FY24E is ~₹ 892 crore. Net debt reduced by ~₹ 200 QoQ to ₹ 4556 crore. The average cost of interest-bearing borrowings during Q3 was at 7.13% vs. 6.4% QoQ
- **Non-core assets** – The company is aiming to sell non-core assets (mostly land) to the tune of ₹ 300-400 crore, which is likely to happen partially in Q4FY23 as well as the coming quarters

Key triggers for future price performance

New capacities to bring efficiency and spur growth: Incremental volumes from new units [2 MT already commissioned and 1 MT Odisha grinding unit (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 18.6% revenue CAGR in FY22-24E. While newly commissioned units would lead to a reduction in transit distance for 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, respectively, 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. With total capex of ₹ 2600 crore against expected operating cash flow of ₹ 2400 crore, we expect debt levels to continue to stay elevated only (unless it is reduced through sale of non-core assets) against our earlier expectation of 20% reduction in the debt during the same period.

Valuation & Outlook

"While the levers are there for margin expansion and growth, the higher capex guidance, would keep debt at elevated levels thereby impacting return ratios. Hence, we assign HOLD rating on the stock. We value Ramco at ₹ 760 i.e.13.0x FY24E EV/EBITDA.

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**

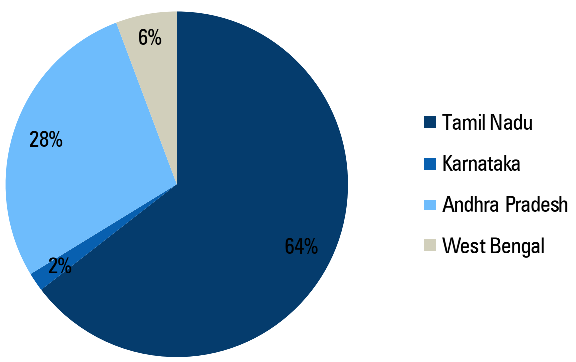
Source: Company, ICICI Direct Research

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**

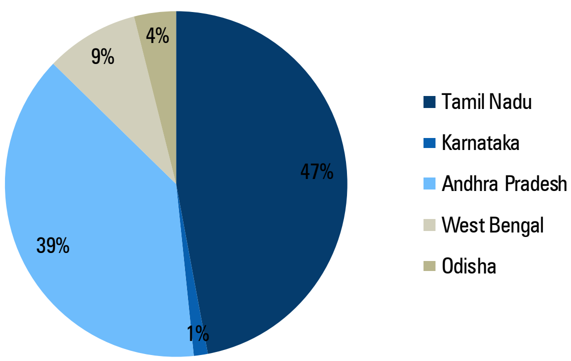

Source: Company, ICICI Direct Research

Exhibit 5: Regional capacity mix (pre-expansion)



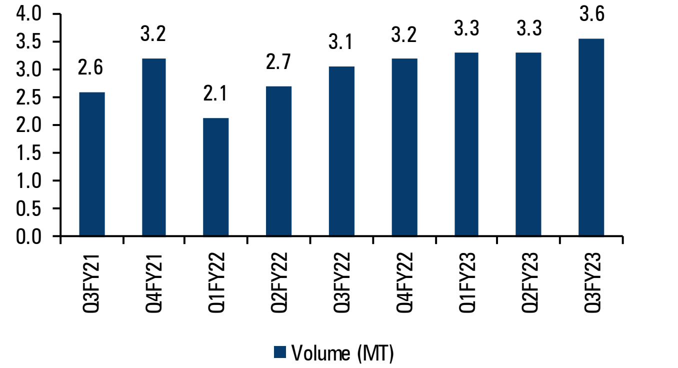
Source: Company, ICICI Direct Research

Exhibit 6: Regional capacity mix (post-expansion)



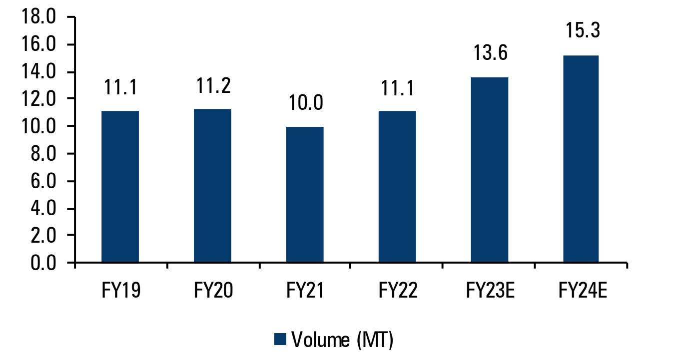
Source: Company, ICICI Direct Research

Exhibit 7: Volumes grow 18.6% YoY in Q3FY23



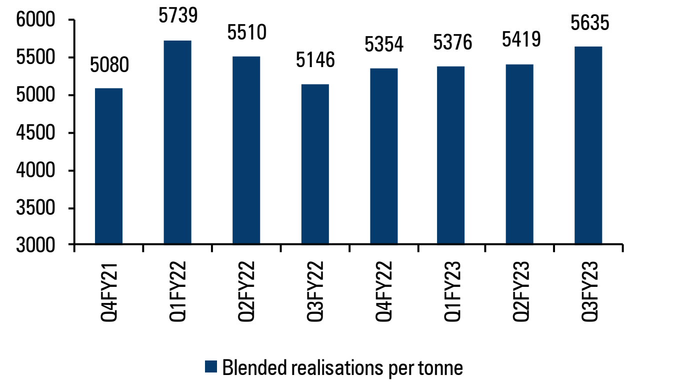
Source: Company, ICICI Direct Research

Exhibit 8: Volume growth to stay healthy led by new capacity addition



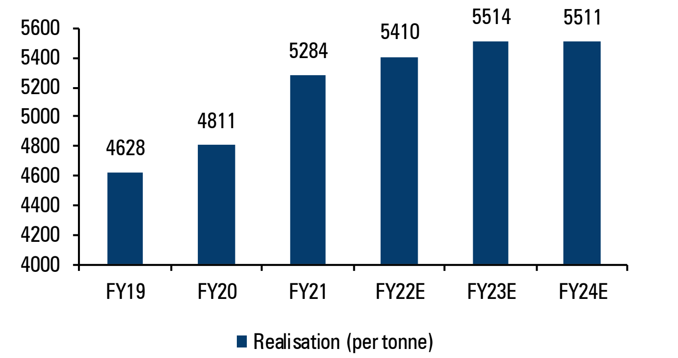
Source: Company, ICICI Direct Research

Exhibit 9: Realisations improve 4% QoQ



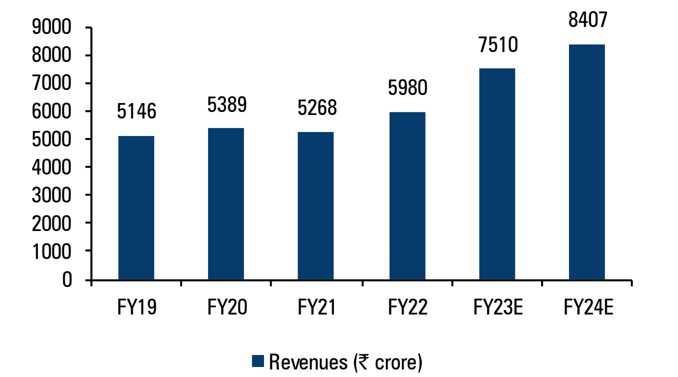
Source: Company, ICICI Direct Research

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



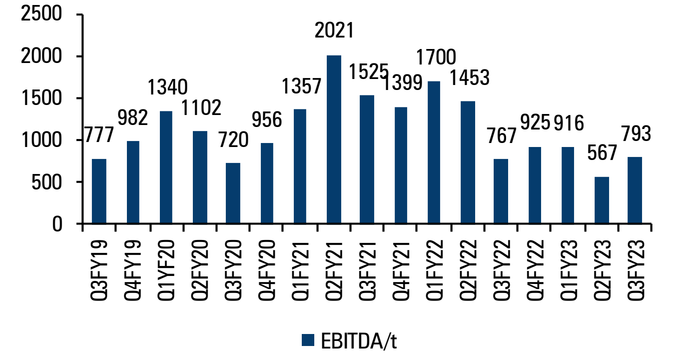
Source: Company, ICICI Direct Research

Exhibit 11: Revenues to grow at 18.6% CAGR over FY22-24E



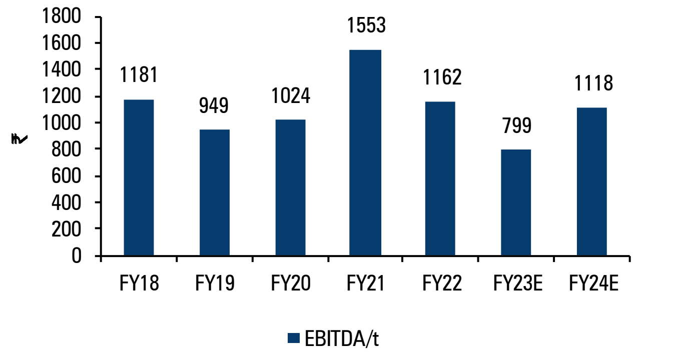
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA/t improved QoQ on better realisation



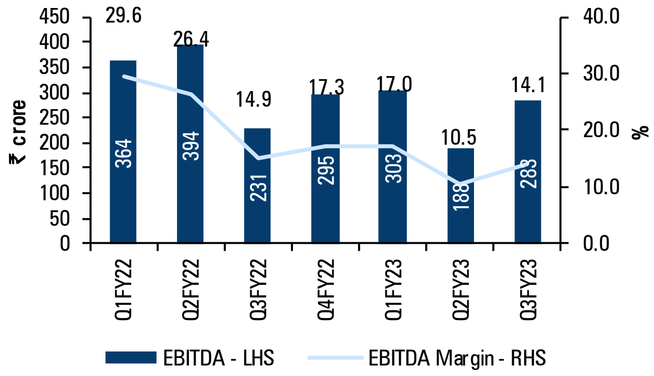
Source: Company, ICICI Direct Research

Exhibit 13: FY23E EBITDA/t to moderate due to cost pressure; To improve in FY24E



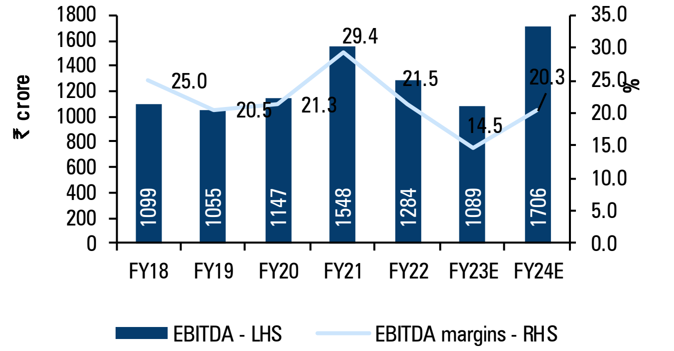
Source: Company, ICICI Direct Research

Exhibit 14: Margins trend …



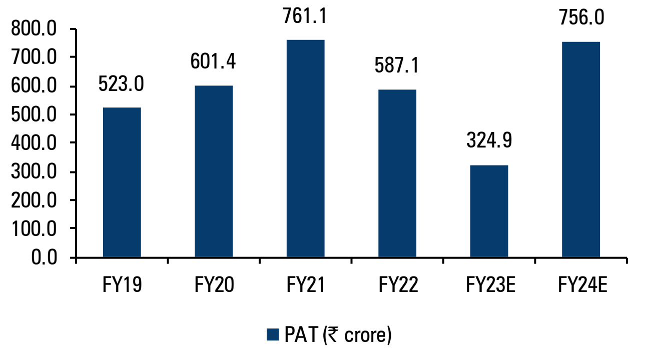
Source: Company, ICICI Direct Research

Exhibit 15: EBITDA margin to stabilise to 20% by FY24E



Source: Company, ICICI Direct Research

Exhibit 16: FY23E 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**	**8,406.6**
Growth (%)	4.7	-2.2	13.5	25.6	11.9
Raw material cost	650.7	703.5	715.5	858.1	1128.8
Employee Expenses	380.6	402.1	414.5	455.9	492.4
Power, Oil & Fuel	1050.9	794.7	1388.8	2451.6	2105.1
Freight cost	1360.8	1187.9	1389.3	1702.5	1906.8
Other Expenses	798.9	632.2	788.1	953.4	1067.8
Total Operating Exp.	4,241.9	3,720.5	4,696.1	6,421.5	6,700.9
EBITDA	**1,147.4**	**1,548.0**	**1,283.8**	**1,088.7**	**1,705.6**
Growth (%)	8.8	34.9	-17.1	-15.2	56.7
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	1,010.3
Total Tax	190.9	378.6	-91.5	136.0	254.3
PAT	**601.4**	**761.1**	**892.7**	**324.9**	**756.0**
Adjusted PAT	601.4	761.1	587.1	324.9	756.0
Growth (%)	15.0	26.6	-22.9	-44.7	132.7
EPS (₹)	**25.5**	**32.3**	**37.8**	**13.8**	**32.0**

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	324.9	756.0
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	-51.0
Inc/(dec) in CL and Provisions	-115.0	487.8	227.9	99.5	-147.4
CF from operating activit	**606.0**	**2,014.6**	**1,171.5**	**1,010.3**	**1,405.2**
(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	-892.0
CF from investing activit	**-1,935.9**	**-1,763.2**	**-1,858.2**	**-1,682.8**	**-960.0**
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	214.8
Closing Cash	**91.4**	**141.9**	**176.1**	**214.8**	**241.4**

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	6,826.1	7,582.1
Total Shareholders fun	4,918.6	5,627.0	6,524.8	6,849.7	7,605.7
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	1,176.9
Non Current Liabilities	36.9	38.8	51.3	17.6	18.5
Total Liabilities	**9,035.0**	**9,854.5**	**11,330.1**	**12,776.0**	**13,458.4**
Assets					
Gross Block	9,581.4	10,863.6	12,053.9	15,848.9	16,840.9
Less: Acc Depreciatior	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	11,365.2
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**	**12,215.2**
Investments	427.5	431.9	422.0	425.8	525.8
Inventory	645.3	597.9	833.3	823.0	875.2
Debtors	500.8	375.2	349.8	411.5	437.6
Loans and Advances	29.8	27.8	20.4	22.5	25.2
Other Current Assets	695.2	689.7	689.1	871.2	815.4
Cash	91.4	141.9	176.1	214.8	241.4
Total Current Asse	**1,962.4**	**1,832.5**	**2,068.8**	**2,343.1**	**2,394.9**
Creditors	341.4	363.4	489.2	514.4	575.8
Other Current Liability	668.3	1,134.0	1,236.1	1,310.5	1,101.7
Total Current Liabi	**1,009.7**	**1,497.5**	**1,725.3**	**1,824.9**	**1,677.5**
Net Current Assets	952.8	335.0	343.4	518.2	717.4
Application of Fun	**9,035.0**	**9,854.5**	**11,330.1**	**12,776.0**	**13,458.4**

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	13.8	32.0
Cash EPS	39.0	47.3	54.7	32.5	53.5
BV	208.8	238.5	276.1	289.9	321.9
DPS	2.5	3.0	3.0	2.5	2.5
Cash Per Share	3.9	6.0	7.5	9.1	10.2
Operating Ratios (%)					
EBITDA Margin	21.3	29.4	21.5	14.5	20.3
PAT Margin	11.2	14.4	9.8	4.3	9.0
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	4.7	9.9
RoCE	7.5	8.6	8.9	4.2	7.2
RoIC	9.0	11.1	12.0	4.4	7.6
Valuation Ratios (x)					
P/E	27.7	21.9	18.7	51.4	22.1
EV / EBITDA	17.2	12.7	15.9	19.5	12.3
EV / Net Sales	3.7	3.7	3.4	2.8	2.5
Market Cap / Sales	3.1	3.2	2.8	2.2	2.0
Price to Book Value	3.4	3.0	2.6	2.4	2.2
Solvency Ratios					
Debt/EBITDA	2.8	2.0	3.1	4.5	2.7
Debt / Equity	0.6	0.6	0.6	0.7	0.6
Current Ratio	1.9	1.1	1.1	1.2	1.3
Quick Ratio	1.2	0.7	0.6	0.7	0.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%

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