

CMP: ₹ 842

Target: ₹ 980 (16%)

Target Period: 12 months

May 20, 2023

Record high capacity utilisation rate drives outperformance...

About the stock: Ramco Cements is the **dominant player in South India** with cement capacity of 22 MT spread across Tamil Nadu, Andhra Pradesh, Odisha and West Bengal. In terms of sales, south contributes ~75% of sales while east contributes 25%, which is served via grinding units in West Bengal (2 MT) and Andhra Pradesh (2 MT).

- The company also has a windmill capacity of 166 MW, captive thermal power plants of 175 MW and 40 MW of WHRS
- Self-reliance on power, split grinding units near markets and focus on green power have helped the company to remain a cost efficient player in South India

Q4FY23 Results: Ramco Cements' Q4FY23 print was a strong beat on our and consensus estimates mainly driven by record high-capacity utilisation rates (85% vs. 66% in Q4FY22).

- Reported robust topline growth of 50% YoY to ₹ 2572 crore mainly driven by volume growth of 47% YoY to 4.7 MT. With the pricing environment remaining soft especially in deep south markets (Chennai & Kerala markets), the company's blended realisation declined by ₹ 160/t (QoQ) to ₹ 5473/t
- With positive operating leverage kicking in, EBITDA/t improved by ₹ 83/t (QoQ) to ₹ 876/t
- Finance cost and depreciation expense increased by 130% and 30% YoY, respectively, owing to commissioning of Jayanthipuram Line-3, integrated plant at Kolimigundla and Line-3 at RR Nagar. Subsequently, PAT grew 22% YoY to ₹ 150.9 crore

What should investors do? The stock price of Ramco Cement in the recent times has been volatile owing to concerns regarding high debt levels (debt/EBITDA: 3.8x) and increased capex over the past two years (₹ 3600+ crore in FY22-23). With capex intensity reducing, going forward (FY24 guidance: ₹ 892 crore) and the company generating higher OCF, we expect b/s deleveraging to pick up pace in FY24-25E.

- With key growth and margin levers intact, we believe in the medium-term company's key focus area will be on consolidating the recently expanded capacities. We upgrade our rating from HOLD to **BUY** on the stock

Target Price and Valuation: We value Ramco at ₹ 980 i.e. ~12x FY25E EV/EBITDA.

Key triggers for future price performance:

- We build in sales, volume growth of 16% and 8% YoY to 17.3 MT and 18.7 MT in FY24, FY25E, respectively
- With softening of fuel prices and other cost saving initiatives (installation of WHRS & railway siding at Kurnool) we expect overall COP to decline by ₹ 300/t during FY23-25E and expect the company to clock in EBITDA/t of ₹ 1157/t by FY25E

Alternate Stock Idea: Apart from Ramco, in our cement sector coverage we also like UltraTech. BUY with a target price of ₹ 9000/share

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23	4 Year CAGR (%)	FY24E	FY25E	2 Year CAGR (%)
Net Sales	5146	5389	5268	5980	8157	12.2	9434	10334	12.6
EBITDA	1055	1147	1548	1284	1186	3.0	1777	2158	34.9
EBITDA (%)	20.5	21.3	29.4	21.5	14.5		18.8	20.9	
Adjusted PAT	523	601	761	587	342		738	1016	
EPS (₹)	22	26	32	25	14		31	43	
EV/EBITDA	20.2	19.9	14.7	18.3	20.3		13.4	10.7	
EV/Tonne (\$)	196	152	146	152	138		131	122	
RoNW	11.7	12.2	13.3	8.9	5.0		9.6	11.7	
RoCE	12.9	10.7	13.9	9.5	5.1		8.2	10.0	

Source: Company, ICICI Direct Research

BUY



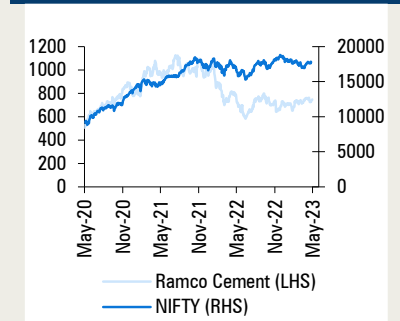
Particulars

Particulars	Amount (₹ crore)
Market Capitalisation	19790.4
Total Debt (FY23)	4488.0
Cash (FY23)	199.0
EV	24079.4
52 week H/L (₹)	849/575
Equity Capital	23.6
Face Value (₹)	1.0

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	42.3	42.3	42.3	42.3
FII	6.9	6.6	7.1	7.6
DII	36.8	37.1	35.6	35.9
Others	14.0	13.9	14.9	14.3

Price Chart



Key risks

- Slowdown in demand impacting capacity utilisations rates
- Volatility in prices of key inputs like coal/petcoke

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Key performance highlights

- Ramco reported robust volume growth of 47% YoY to 4.7 MT (I-direct estimate: 3.9 MT) with capacity utilisation rate coming in at 85% vs. 66% in Q4FY22. Cement demand in the south (volume share: 76%) remained strong driven by B2B business (particularly road projects). Demand in east (volume share: 24%) was relatively softer in B2C segment. With the pricing environment remaining soft, especially in deep south markets (Chennai & Kerala markets), the company's blended realisation declined by ₹ 160/t (QoQ) to ₹ 5473/t (I-direct estimate: ₹ 5445/t). The company recorded healthy topline growth of 50% YoY to ₹ 2572 crore (I-direct estimate: ₹ 2132.4 crore). **The management remains upbeat on outlook and has guided for 20% YoY volume growth in FY24E (leading to market share gains)**
- Power & fuel cost declined by ₹ 332/t (QoQ) to ₹ 1635/t as blended fuel consumption per ton declined to \$178 (Q3FY23: \$191, Q4FY22: \$162). Cost per Kcal declined from ₹ 2.43/Kcal to ₹ 2.21/Kcal (QoQ). In the fuel mix, the company continued higher usage of pet coke (56%), followed by imported coal (31%) and AFR (13%). Enhanced focus on green power with share increasing 700 bps YoY to 23%. Operation of WHRS increased to 40 MW
- Freight cost remain stubborn at ₹ 1302/t (including internal clinker freight) in Q4FY23 owing to increased inter-unit clinker movement to grinding plants. Average lead distance was at 310 km (Q4FY22: 326 km, Q3FY23: 299 km). Busy season surcharge of 15% re-imposed by Railways impacted cost by ₹ 25/t in Q4FY23
- With positive operating leverage kicking in, EBITDA/t improved by ₹ 83/t (QoQ) to ₹ 876/t (I-direct estimate: ₹ 794/t). The profitability improvement is encouraging despite weak realisations.

Updates on ongoing projects

- Kurnool integrated unit: Clinker capacity of 2.5 MTPA & cement capacity of 1.5 MTPA commenced commercial production from June 16, 2022 & September 23, 2022, respectively and achieved clinker capacity utilisation of ~83% in Q4FY23
- WHRS capacity of 8 MW in Kurnool was commissioned during FY23 while the balance 4 MW will be commissioned in May 2023. TPP of 18 MW and railway siding will be commissioned in FY24
- Odisha Grinding Unit Line II with cement capacity of 0.9 MTPA is expected to be commissioned during H2FY24
- RRN Line III with clinker capacity of 1.04 MTPA and cement capacity of 1 MTPA commissioned in March 2023
- During Q4, the company incurred capex worth ₹ 390 crore while for the full year (FY23), capex was at ₹ 1765 crore
- The management has reiterated its capex guidance of ₹ 892 crore for FY24E (details in exhibit 4). If the demand scenario continues to remain conducive, the company may accelerate capacity addition. It will first opt for brownfield at Kurnool (line-2 for capex of ₹ 900 crore) followed by greenfield in Karnataka**

Current demand for cement is healthy in IHB as well as in infra segments. The cement demand in the medium term is expected to be resilient in view of the government's focus on infra spend, upcoming elections and forecast of normal monsoon for 2023. The company exited the year with healthy utilisation rates (FY23: 68%). Going forward, we build in average utilisation rate of 76-78% for FY24-25E. The CIF spot pet coke prices are now trending at lower levels at US\$125 (vs. US\$178 in February 2023). The benefit of the same is expected to flow from Q2FY24E. We expect overall COP to decline by ₹ 300/t. Subsequently, we build in EBITDA/t of ₹ 1100+ by FY25E. On the balance sheet front, the company generated OCF of ₹ 1400 crore and incurred capex of ₹ 1765 crore (negative FCF: ₹ 365 crore). Owing to healthy profitability and WC release, the company has managed to reduce net debt by ₹ 205 crore (on a QoQ) basis to ₹ 4351 crore. With capex intensity to reduce, going forward (FY24 guidance: ₹ 892 crore) and the company generating higher OCF, we expect b/s deleveraging to pick up pace in FY24E. We build in debt reduction to the tune of ₹ 290 crore in FY24E and ₹ 660 crore in FY25E (provided capex gets restricted to ~ ₹ 2000 crore over the next two years). Expect RoCE to improve gradually in double digits to 10% in FY25E.

Ramco Cement - ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	13.4	13.4	NA
Social	31.4	36.8	NA
Governance	78.6	78.6	NA
Overall ESG Score	41.2	43.0	NA

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Exhibit 1: Variance Analysis

Particulars	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Net Sales	2,572.5	2,123.4	1,709.1	50.5	2,011.6	27.9	
Other income	11.0	10.0	9.9	11.2	8.8	25.3	
Raw Material Expenses	418.5	214.5	208.0	101.2	188.5	122.0	
Employee Expenses	118.4	120.0	94.3	25.6	119.1	-0.6	
Power and fuel	768.6	737.1	466.8	64.7	702.3	9.4	
Freight	612.0	507.0	412.0	48.6	485.3	26.1	
Others	243.4	235.0	233.0	4.5	233.3	4.3	
Total cost of production	2,160.9	1,813.6	1,414.0	52.8	1,728.5	25.0	
EBITDA	411.7	309.8	295.1	39.5	283.1	45.4	
EBITDA Margin (%)	16.0	14.6	17.3	-127 bps	14.1	193 bps	
Interest	77.2	62.0	33.4	130.8	60.8	26.8	
Depreciation	140.9	137.0	107.5	31.1	136.3	3.4	
PBT	204.6	120.8	164.1	24.7	94.8	115.9	
Total Tax	53.7	32.0	40.0	34.2	29.1	84.4	
Reported PAT	150.9	88.8	124.1	21.6	65.6	129.9	
Key Metrics							
Volume (MT)	4.70	3.90	3.19	47.2	3.57	31.7	Reported record high CU of 85% vs. 66% in Q4FY22
Realisation (₹)	5,473	5,445	5,354	2.2	5,635	-2.9	With pricing environment remaining soft especially in deep south markets (Chennai & Kerala markets), company's blended realisation declined by ₹ 160/t (QoQ)
EBITDA per Tonne (₹)	876	794	925	-5.3	793	10.5	
Per tonne Analysis							
Net Sales	5,473	5,445	5,354	2.2	5,635	-2.9	
Raw Material Expenses	890	550	652	36.6	528	68.6	Higher RM costs owing to additional incidence of freight on increased inter-unit clinker movement to grinding plants.
Employee Expenses	252	308	295	-14.7	334	-24.5	
Power and fuel	1,635	1,890	1,462	11.8	1,967	-16.9	Power & Fuel cost declined by ₹ 332/t (QoQ) as blended fuel consumption per ton declined to \$ 178 (Q3FY23: \$ 191, Q4FY22: \$ 162). Cost per Kcal declined from ₹ 2.43/Kcal to ₹ 2.21/Kcal (QoQ).
Freight	1,302	1,300	1,291	0.9	1,359	-4.2	Re-imposition of busy season surcharge by rail led to increase in the freight cost
Others	518	603	730	-29.0	654	-20.8	
Production costs	4,598	4,650	4,430	3.8	4,842	-5.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY24E			FY25E
	Old	New	% Change	Introduced
Revenue	8,406.6	9,433.8	12.2	10,333.8
EBITDA	1,705.6	1,776.9	4.2	2,157.6
EBITDA Margin (%)	20.3	18.8	-145 bps	20.9

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: Capacity across regions

Integrated unit	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
RR Nagar, Tamil Nadu (1 MT of Cement & 1.04 MT of Clinker added in FY23)	2.0	2.0	2.0	2.0	3.0	3.0	3.0
Alathiyur, Tamil Nadu	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Ariyalur, Tamil Nadu	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Jayanthipuram, AP (1.5MT clinker unit added in June-21)	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Kurnool, Andhra Pradesh (1.5 MT of Cement & 2.5 MT of Clinker added in FY23)					1.5	1.5	1.5
Total [A]	12.2	12.2	12.2	12.2	14.7	14.7	14.7
Grinding Unit							
Uthiramerur, Tamil Nadu	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Salem, Tamil Nadu	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Kolaghat, West Bengal	1.0	2.0	2.0	2.0	2.0	2.0	2.0
Vizag, Andhra Pradesh	1.0	2.0	2.0	2.0	2.0	2.0	2.0
Jajpur Odisha Grinding Unit			0.9	0.9	0.9	1.8	1.8
Mathodu, Karnataka	0.5	0.5	0.2	0.2	0.2	0.2	0.2
Bommanahalli, Karnataka (nascent stage)							1.0
Total [B]	4.6	6.6	7.2	7.2	7.2	8.1	9.1
Total Capacity [A+B]	16.8	18.8	19.4	19.4	21.9	22.8	23.8

Source: Company, ICICI Direct Research

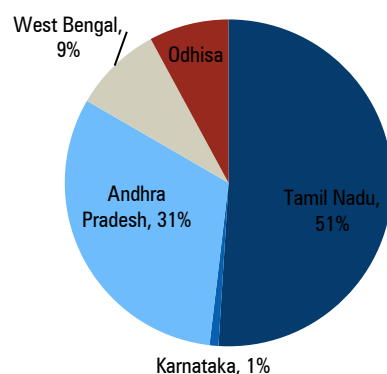
Exhibit 4: Detailed capex break-up

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



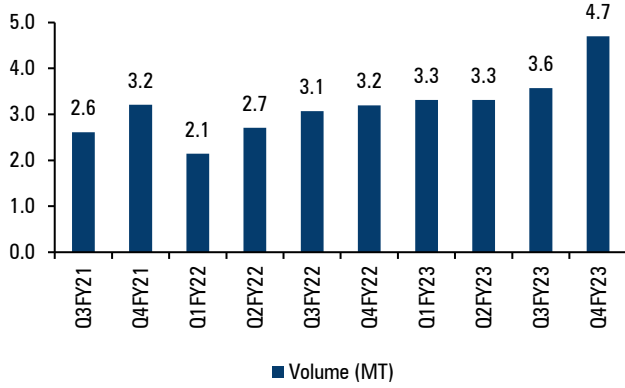
Source: Company, ICICI Direct Research

Exhibit 5: Regional capacity mix



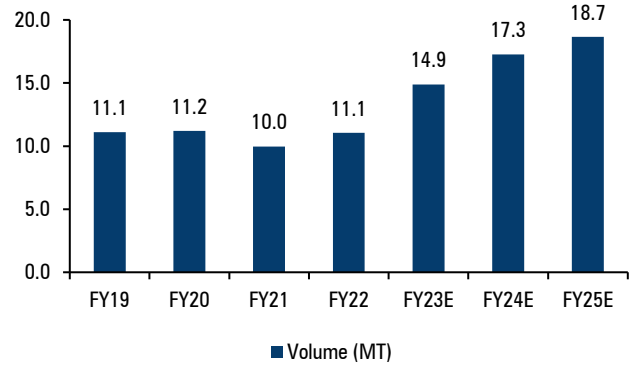
Source: Company, ICICI Direct Research

Exhibit 6: Volumes grew 47% YoY in Q4FY23



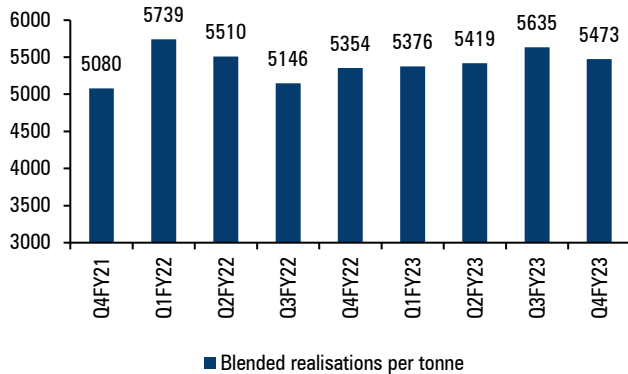
Source: Company, ICICI Direct Research

Exhibit 7: Volume growth to be in double digits owing to expanded capacities with CU at 76-78%



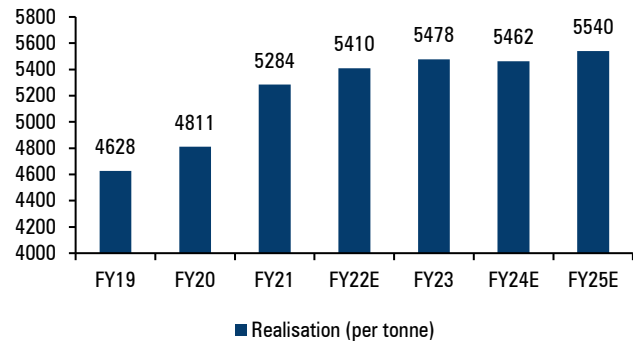
Source: Company, ICICI Direct Research

Exhibit 8: Realisations declined owing to weak pricing environment in deep south markets...



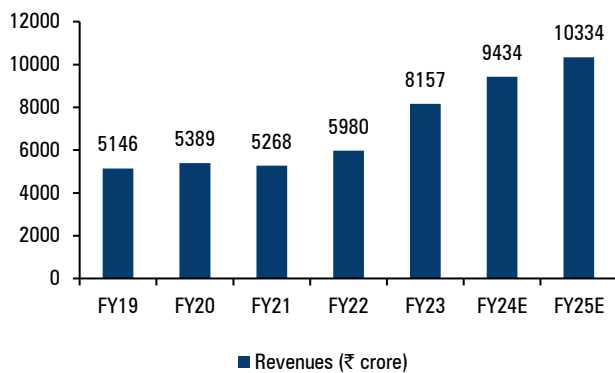
Source: Company, ICICI Direct Research

Exhibit 9: ... hence, we build in flattish realisation over next two years



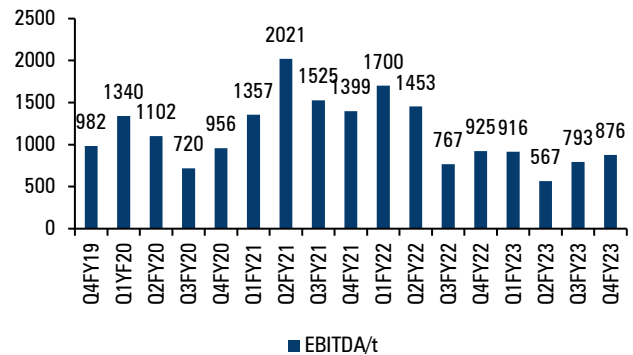
Source: Company, ICICI Direct Research

Exhibit 10: Revenues to grow at 13% CAGR over FY23-25E



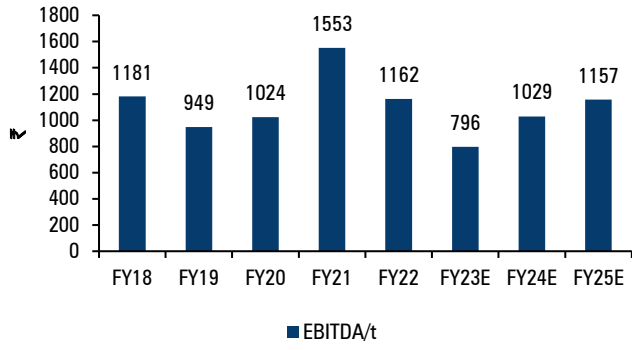
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t improves QoQ owing to positive operating leverage and reduction in fuel costs



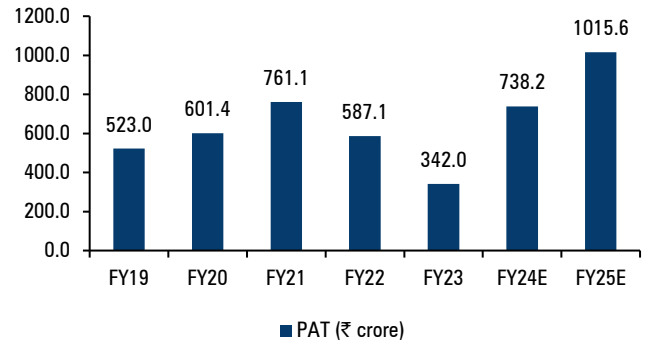
Source: Company, ICICI Direct Research

Exhibit 12: We build in ~ ₹ 300/t cost saving in FY23-25E



Source: Company, ICICI Direct Research

Exhibit 13: PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 14: Profit & Loss Account

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Operating Income	5,268.4	5,980.0	8,157.3	9,433.8	10,333.8
Growth (%)	-2.2	13.5	36.4	15.6	9.5
Raw material cost	703.5	715.5	1014.2	1243.6	1436.4
Employee Expenses	402.1	414.5	468.7	506.1	546.6
Power, Oil & Fuel	794.7	1388.8	2661.6	2590.9	2611.6
Freight cost	1187.9	1389.3	1931.8	2366.3	2555.6
Other Expenses	632.2	788.1	895.5	950.0	1026.0
Total Operating Exp.	3,720.5	4,696.1	6,971.7	7,656.9	8,176.2
EBITDA	1,548.0	1,283.8	1,185.6	1,776.9	2,157.6
Growth (%)	34.9	-17.1	-7.7	49.9	21.4
Depreciation	355.3	400.8	506.0	591.6	627.6
Interest	87.6	112.4	240.5	230.9	204.8
Other Income	34.6	30.6	32.9	32.0	32.0
PBT	1,139.7	801.2	472.0	986.5	1,357.2
Total Tax	378.6	-91.5	130.0	248.3	341.6
PAT	761.1	892.7	342.0	738.2	1,015.6
Adjusted PAT	761.1	587.1	342.0	738.2	1,015.6
Growth (%)	26.6	-22.9	-41.8	115.8	37.6
EPS (₹)	32.3	37.8	14.5	31.2	43.0

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet summary

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Liabilities					
Equity Capital	23.6	23.6	23.6	23.6	23.6
Reserve and Surplus	5,714.4	6,601.7	6,844.4	7,629.9	8,645.5
Total Shareholders fund	5,738.0	6,625.4	6,868.1	7,653.5	8,669.1
Total Debt	3,101.7	3,930.0	4,487.4	4,197.6	3,531.2
Deferred Tax Liability	1,083.5	822.3	927.4	973.8	1,022.5
Non Current Liabilities	43.5	51.3	69.5	68.5	67.4
Total Liabilities	9,966.7	11,428.9	12,352.4	12,893.4	13,290.2
Assets					
Gross Block	10,524.1	11,625.9	14,532.4	16,432.4	17,432.4
Less: Acc Depreciator	3,747.9	4,050.4	4,556.4	5,148.0	5,775.5
Net Block	6,776.1	7,575.5	9,976.0	11,284.5	11,656.9
Capital WIP	2,325.5	2,992.2	1,926.9	1,000.0	1,000.0
Total Fixed Assets	9,101.6	10,567.6	11,902.9	12,284.5	12,656.9
Intangible Assets	87.0	108.8	150.0	150.0	150.0
Investments	451.9	427.5	401.6	413.8	429.4
Inventory	599.3	834.5	883.6	1,085.5	1,132.5
Debtors	375.9	350.7	465.1	568.6	537.9
Loans and Advances	14.6	13.6	12.8	28.3	31.0
Other Current Assets	325.3	330.1	355.1	396.2	434.0
Cash	143.8	178.5	170.3	102.0	137.9
Total Current Assets	1,458.9	1,707.4	1,886.9	2,180.7	2,273.3
Creditors	364.5	490.7	638.6	775.4	849.4
Other Current Liability	1,123.7	1,238.9	1,603.7	1,608.5	1,613.3
Total Current Liabilities	1,488.2	1,729.6	2,242.3	2,383.9	2,462.7
Net Current Assets	-29.3	-22.2	-355.4	-203.2	-189.4
Other NCA	355.5	347.3	253.3	248.2	243.3
Application of Funds	9,966.7	11,428.9	12,352.4	12,893.4	13,290.2

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Profit after Tax	761.1	892.7	342.0	738.2	1,015.6
Add: Depreciation	355.3	400.8	506.0	591.6	627.6
(Inc)/dec in Current Assets	159.2	-213.8	-187.7	-362.1	-56.7
Inc/(dec) in CL and Provisions	651.4	-12.0	636.0	186.9	126.4
CF from operating activities	1,927.0	1,067.8	1,296.4	1,154.5	1,712.9
(Inc)/dec in investment	-24.4	24.5	25.8	-12.2	-15.5
(Inc)/dec in Fixed Assets	-1,915.2	-1,888.7	-1,788.5	-973.1	-1,000.0
Others	67.4	8.2	0.0	5.1	5.0
CF from investing activities	-1,872.3	-1,856.0	-1,762.7	-980.3	-1,010.6
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-60.7	828.2	557.5	-289.8	-666.5
Others	58.3	-5.4	-99.3	47.3	0.0
CF from financing activities	-2.3	822.9	458.2	-242.5	-666.5
Opening Cash	91.4	143.8	178.5	170.3	102.0
Closing Cash	143.8	178.5	170.4	102.0	137.9

Source: Company, ICICI Direct Research

Exhibit 17: Ratio sheet

(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
Per share data (₹)					
Adjusted EPS	32.3	37.8	14.5	31.2	43.0
Cash EPS	47.3	54.7	35.9	56.3	69.5
BV	243.2	280.4	290.7	323.9	366.9
DPS	3.0	3.0	3.0	2.0	0.0
Cash Per Share	6.1	7.6	7.2	4.3	5.8
Operating Ratios (%)					
EBITDA Margin	29.4	21.5	14.5	18.8	20.9
PAT Margin	14.4	9.8	4.2	7.8	9.8
Inventory days	41.5	50.9	39.5	42.0	40.0
Debtor days	26.0	21.4	20.8	22.0	19.0
Creditor days	25.3	30.0	28.6	30.0	30.0
Return Ratios (%)					
RoE	13.3	8.9	5.0	9.6	11.7
RoCE	13.9	9.5	5.1	8.2	10.0
RoIC	11.1	12.1	5.5	8.2	10.2
Valuation Ratios (x)					
P/E	26.0	22.2	58.0	26.9	19.5
EV / EBITDA	14.7	18.3	20.3	13.4	10.7
EV / Net Sales	4.3	3.9	3.0	2.5	2.2
Market Cap / Sales	3.8	3.3	2.4	2.1	1.9
Price to Book Value	3.5	3.0	2.9	2.6	2.3
Solvency Ratios					
Debt/EBITDA	2.0	3.1	3.8	2.4	1.6
Debt / Equity	0.5	0.6	0.7	0.5	0.4
Current Ratio	1.1	1.1	0.9	1.0	1.0
Quick Ratio	0.7	0.6	0.5	0.5	0.5

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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