

Strong Quarter however margin pressure to continue.

CMP: INR 945

Rating: ACCUMULATE

Target Price: INR 1068

Stock Info	
BSE	500260
NSE	RAMCOCEM
Bloomberg	TRCL IN
Reuters	TRCE.BO
Sector	Cement
Face Value (INR)	1
Equity Capital (INR mn)	236
Mkt Cap (INR mn)	22,301
52w H/L (INR)	1130/ 752
Avg. Yearly Vol (in 000')	609.14

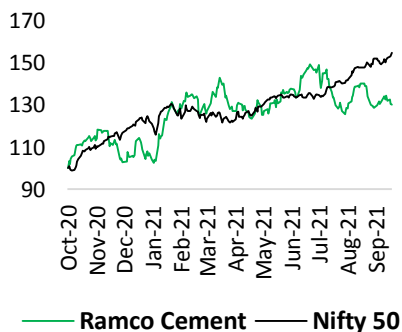
Shareholding Pattern %

(As on September, 2021)

Promoters	42.52
Public & Others	57.48

Stock Performance (%)	1M	3M	12m
Ramco	-3.9	-14.9	18.7
Nifty 50	3.2	14.5	52.3

Ramco Cement Vs Nifty



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Ramco Cement Limited reported strong set of numbers in Q2FY22 and results were above our expectation on all fronts. Revenue from Operations grew by 19.4% YoY, and 20.6% QoQ to INR 14531 mn above our estimate INR 13800 mn. Sales Volume grew by 23% YoY and 28.6% QoQ to 2.7 MMT above our estimate of 2.4 MMT. Cement demand was affected during the current quarter in eastern and southern regions due to heavy monsoon and weekend lockdown in kerla. Realization/tonne declined by 3% YoY and 5.5% QoQ to INR 5530 below our expectation of INR 5750 .

EBIDTA declined by 11% YoY however grew by 8.2% QoQ to INR 3938 mn above our estimates of INR 3520 mn. EBIDTA margin contracted by 879 bps YoY and 325 bps QoQ to 26.4%. Pressure on EBIDTA margin was mainly due to rise in operating cost. Diesel price have risen by 20% in current quarter leading to rise in logistic cost he power & fuel cost per ton of cement for Q2 FY22 has increased to INR .1057/- from INR.823/- in Q2FY21 EBIDTA /ton declined by 27% YoY and 16% QoQ to INR 1459 below our expectation of INR 1467.

PAT grew by 119% YoY and 205% QoQ to INR 5170 mn above our expectation of INR 2200 mn led by topline growth and one of deferred tax liability adjustment. PAT margin came at 34.6% as compared to 13.8% in Q1FY22 and 18.8% in Q1FY21.

As per Section 115BAA in the Income Tax Act, 1961, the Company has an irrevocable option of shifting to a lower tax rate and simultaneously forgo certain tax incentives, deductions and accumulated MAT credit. In view of the overall tax benefits available under the said option, the Company has opted for shifting to lower tax rate from FY 2021-22 during the current quarter. Consequent to adoption of new tax regime, the company has written back the excess deferred tax provision of INR 3056 mn from Deferred Tax Liability to P&L. While there will be no impact on Profit before Tax, the Profit after Tax will be higher by Rs.3056 mn for the current quarter

Outlook and Valuations

At a CMP of INR 945 stock is trading at an EV/EBIDTA multiple of 15.7(x) and 12.9(x) and to its F22E and FY23E Company has delivered strong performance in Q2FY22 despite heavy rainfall in south and eastern parts. The company has been demonstrating strong performance in past despite being in the region that has been witnessing supply glut for several years. TRCL's capacity expansion will support market share gains which along with the growth in economic activities will support volumes. With most of the capex completed, FY23 to witness significant deleveraging supported by strong free cash flows However margin pressure is expected to continue due to rising input cost. We value the stock at 14.5(x) EV/EBIDTA to its FY23E EBIDTA of INR 18445 Mn to arrive at a target price of INR 1068 and we assign Accumulate rating on the stock.

Operational & Con-Call Highlights

- The utilisation rate for Q2 FY22 is 74% as against 70% in Q2 of PY based on clinker capacity.
- Company sees strong signs of demand recovery in the coming quarters. The company continues to focus on this to make its brand stronger and to gain market share.
- The spot market price of pet coke have increased to \$250 CIF in Sep-21 and the price of imported coal from Australian origin have increased to \$220 in Sep-21. The continuous increase in fuel prices is likely to push up the cost further in the coming quarters. However, the operations of 18 MW WHRS in Jayanthipuram have helped to offset the power & fuel cost for the company to certain extent.
- The balance 9 MW WHRS in Jayanthipuram is expected to be commissioned in Q3 of the current year. In view of steep cost increase, the need for price increase is imperative to sustain the business operations. The company is conducting various meetings to educate dealers in this regard.
- The Kurnool project is delayed mainly because of disruption of work force caused by COVID-19 since last 21 months. The clinkering unit of 2.25 MTPA in Kurnool is expected to be commissioned during Q4 of FY 2021-22.
- The 1 MTPA cement grinding facility, 12 MW of WHRS and 18 MW of TPP in Kurnool are expected to be commissioned during FY 2022-23.
- The company proposes to modernize its RR Nagar plant at a cost of Rs.476 cores by installing a new energy efficient kiln of 3000 TPD to replace the existing kiln of 1450 TPD. It is expected to commission the new kiln before Mar-23. After completion of this project, the clinker capacity at RR Nagar will increase from 1.09 MTPA to 1.44MTPA.
- During Apr-21 to Sep-21, the company has incurred INR 9020 Mn towards capex,including for the above-mentioned ongoing capacity expansion programme. Second half capex would be around 4000 mn and in FY23 would be 5000 mn.
- Company expecting inflation of 10-15% in second half 2022

Q2 FY22 - Quarterly Performance

(in INR Mn)

Particulars (INR Mn)	Q2FY22	Q1FY22	Q2FY21	Q-o-Q	Y-o-Y
Net Revenue	14,931	12,287	12,570	21.5%	18.8%
Material Cost	8,005	5,995	5,599	33.5%	43.0%
Employee Cost	1,096	1,050	1,102	4.4%	-0.5%
Other Expenses	1,892	1,602	1,449	18.1%	30.6%
EBITDA	3,938	3,640	4,420	8.2%	-10.9%
<i>EBITDA Margin %</i>	<i>26.4%</i>	<i>29.6%</i>	<i>35.2%</i>	<i>-325bps</i>	<i>-879bps</i>
Other Income	79	60	83	31.7%	-4.8%
Depreciation	985	956	855	3.0%	15.2%
EBIT	3,032	2,744	3,648	10.5%	-16.9%
Finance Cost	294	243	265	21.0%	10.9%
Exceptional Item	-	-	-	-	-
PBT	2,738	2,501	3,383	9.5%	-19.1%
Tax Expense	-2,432	811	1,026	-399.9%	-337.0%
Effective Tax Rate %	-88.8%	32.4%	30.3%	-12125bps	-11915bps
PAT	5,170	1,690	2,357	205.9%	119.3%
<i>PAT Margin %</i>	<i>34.6%</i>	<i>13.8%</i>	<i>18.8%</i>	<i>2087bps</i>	<i>1,580.00</i>
EPS (Rs)	22.0	7.0	10.0	214.3%	120.0%

Source: Company Filings, Arianth Research

Valuations

INR Mn	FY23E
EV/EBITDA (x)	14.5
EBITDA	18445
EV	267453
Debt	26847
Cash	11079
Market Cap	251685
No shares	236
CMP (INR)	945
Target (INR)	1,068
Upside (%)	13.0%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement

Y/E March (INR Mn)	FY20	FY21	FY22E	FY23E
Revenues	53,893	52,910	61,255	72,334
Change (%)	4.4%	-1.8%	15.8%	18.1%
Total Expenses	42,419	37,337	45,635	53,888
EBITDA	11,474	15,573	15,620	18,445
Other Income	335	304	306	362
Depreciation	3,165	3,566	3,821	4,271
Interest	721	876	775	805
PBT	7,922	11,435	11,330	13,731
Extra-ordinary	0	0	0	0
PBT after ext-ord.	7,922	11,435	11,330	13,731
Tax	1,879	3,799	3,399	4,119
Rate (%)	23.7%	20.0%	30.0%	30.0%
PAT	6,044	7,636	7,931	9,611
MI & Associates	-3	201	0	0
Consolidated PAT	6,041	7,837	7,931	9,611
Change (%)	18.3%	29.7%	1.2%	21.2%

Source: Company, Arianth Research

Cash Flow Statement

Y/E March (INR Mn)	FY20	FY21	FY22E	FY23E
PBT	7,922	11,435	11,330	13,731
Depreciation	3,165	3,566	3,821	4,271
Interest & others	389	371	469	444
Cash flow before WC changes	11,477	11,353	15,620	18,445
(Inc)/dec in working capital	916	2,885	-2,066	306
Operating CF after WC changes	12,393	14,238	13,554	18,751
Less: Taxes	-1,879	-3,799	-3,399	-4,119
Operating Cash Flow	10,514	10,439	10,155	14,632
(Inc)/dec in F.A + CWIP	-17,508	-14,075	-15,000	-15,000
(Pur)/sale of investment	-168	-315	0	0
Cash Flow from Investing	-17,676	-14,390	-15,000	-15,000
Free Cash Flow (FCF)	-5,858	-3,999	-4,845	-368
Loan raised/(repaid)	12,019	-1,477	1,000	1,000
Equity raised	0	0	0	0
Interest & others	-567	6,630	6,168	8,099
Dividend	-589	-707	-707	-707
Cash Flow from Financing Activities	10,862	4,447	6,461	8,392
Net inc/(dec) in cash	-7	496	1,616	8,025
Opening balance of cash	948	942	1,438	3,054
Closing balance of cash	941	1,438	3,054	11,079

Source: Company, Arianth Research

Balance Sheet

Y/E March (INR Mn)	FY20	FY21	FY22E	FY23E
Sources of Funds				
Share Capital	236	236	236	236
Reserves & Surplus	49,778	57,081	64,305	73,210
Net Worth	50,014	57,317	64,541	73,446
Loan Funds	26,324	24,847	25,847	26,847
MI, Deferred Tax & other Liabilities	9,307	11,012	11,012	11,012
Capital Employed	85,725	99,426	1,18,108	1,40,855
Application of Funds				
Net Block	59,934	69,211	84,211	99,211
CWIP	18,964	24,125	24,125	24,125
Other Non-current Assets	3,915	3,552	3,552	3,552
Deferred Tax Assets	4	4	4	4
Net Fixed Assets	82,816	96,891	1,11,891	1,26,891
Investments	2,755	3,070	3,070	3,070
Debtors	5,276	3,759	4,363	5,153
Inventories	6,469	5,993	7,518	8,877
Cash & Bank Balance	942	1,438	3,054	11,079
Loans & Advances & other CA	3,071	3,398	5,721	6,461
Total Current Assets	15,757	14,589	20,657	31,570
Current Liabilities	15,070	14,479	16,763	19,795
Provisions	533	0	0	0
Net Current Assets	154	-535	3,147	10,894
Total Assets	85,725	99,426	1,18,108	1,40,855

Key Ratios

Y/E March	FY20	FY21	FY22E	FY23E
Per share (INR)				
EPS	25.6	33.3	33.7	40.8
CEPS	39.1	48.4	49.9	58.9
BVPS	212.3	243.3	273.9	311.7
DPS	2.5	3.0	3.0	3.0
Div. Payout (%)	9.7%	9.0%	8.9%	7.4%
Valuation (x)				
P/E	36.9	28.4	28.1	23.2
P/CEPS	24.2	19.5	18.9	16.0
P/BV	4.5	3.9	3.4	3.0
EV/EBITDA	21.6	15.8	15.7	12.9
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%
Return Ratio (%)				
EBITDA Margin	21.3%	29.4%	25.5%	25.5%
PAT Margin	11.2%	14.8%	12.9%	13.3%
ROE	12.1%	13.7%	12.3%	13.1%
ROCE	9.7%	12.1%	10.0%	10.1%
Leverage Ratio (x)				
Total D/E	0.5	0.4	0.4	0.4
Net D/E	0.5	0.4	0.4	0.2
Turnover Ratios				
Asset Turnover (x)	0.6	0.5	0.5	0.5
Receivable Days	36	26	26	26
Payable days	102	100	100	100

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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