

Weak southern outlook and rise in input cost to hamper future growth.

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CMP: INR 1060

Rating: NEUTRAL

Target Price: INR 1029

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)	250,090
52w H/L (INR)	1130 / 667
Avg. Yearly Vol (in 000')	745

Shareholding Pattern %

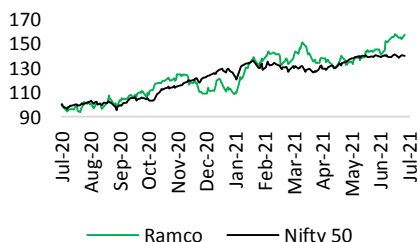
(As on June, 2021)

Promoters	42.54
Public & Others	57.46

Stock Performance (%)

	1M	3M	12m
Ramco	2.6	10.9	55.0
Nifty 50	-0.6	7.5	41.5

Ramco Cement Vs Nifty



Ramco Cement Limited reported weak set of numbers in Q1FY22 and results were below our expectation on all fronts. Although company showed a growth on YoY basis due to lower base, QoQ performance of the company was very weak. Revenue from Operations grew by 17.8% YoY, however declined by 26% QoQ to INR 12287 mn below our estimate INR 13250 mn. Sales Volume grew by 11% YoY however declined 34% QoQ to 2.1 MMT below our estimate of 2.2 MMT Sharp decline in volume on QoQ basis is mainly due to housing demand de growth in South and lockdown in southern region. Realization /ton grew by 14.8% QoQ and 7% YoY to INR 5851 however was still below our estimate of INR 6023. Growth in realization was mainly due to improved cement prices.

EBIDTA grew by 40% YoY however declined by 19% QoQ to INR 3640 mn below our estimates of INR 4000 mn. The YoY growth in EBIDTA was mainly due to growth in top line and operational efficiency measures. De growth in operating profit on QoQ basis was mainly due to decline in topline. EBIDTA margin expanded by 467 bps YoY and 209 bps QoQ to 29.6%. Measures taken to control fixed overheads and under absorption of overheads due to dampened volume growth helped in margin expansion. EBIDTA /ton grew by 27% YoY and 24% QoQ to INR 1733 below our expectation of INR 1818.

PAT grew by 54% YoY however declined by 21 % QOQ to INR 1690 mn below are estimate of INR 2200 mn PAT Margin expanded by 260 bps YoY and 61 bps QoQ to 13.8% . Growth in top line and operating profit coupled with reduction in finance cost led to YoY growth in PAT. On QoQ basis de growth in topline and operating profit and rise in finance cost led to decline in PAT. Finance cost declined 18% YoY however grew by 60% QoQ to INR243 mn.

Outlook and Valuations

At a CMP of INR 1060 stock is trading at an EV/EBIDTA multiple of 17.4(x) and 14.4(x) to its F22E & FY23E. The company has been demonstrating strong performance in past despite being in the region that has been witnessing supply glut for several years. Company has been generating strong free cash flow backed by operational efficiency and decent corporate governance. However considering weak Q1FY22 results, Weak outlook on southern regions and expensive valuation compared to its peers we have a Neutral view on the stock. We value the stock at 14(x) EV/EBIDTA to its FY23E EBIDTA of INR 18445 Mn to arrive at a target price of INR 1029 per share and we downgrade our rating from Hold to Neutral on the stock.

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Operational & Con-Call Highlights

- Demand for cement is likely to be robust going ahead backed by revival of demand from rural housing, PMAY Scheme, commercial and industrial construction and infrastructure development by private and Government
- Company witnessed volume de-growth on QoQ basis amid reduction in housing demand and lockdown in southern region . However eastern region witnessed strong recovery on demand backed by good growth in Individual housing and infra demand pick up.
- Capacity utilization based on clinker improved from 53% in Q1FY21 to 71% in Q1FY22.
- Cost of material /tonne increased by 4% YoY to INR 828 and logistic cost/tonne increased by 3% YoY to INR1073
- Increase in diesel price by 29% YoY pushed the cost of inbound and outbound logistics cost
- Average Lead Distance for the current quarter is 346 KMs vs. 315 KMs YoY
- Company is focusing on green power and its contribution in power & fuel mix improved from 5% in Q1FY21 to 14% Q1FY22
- Power & Fuel cost/tonne increased by 32% YoY to INR 1031 mainly due to rise in pet coke prices
- Company is doing optimum utilization of fuels company has reduced pet coke in fuel mix from 56% in Q1FY21 to 33% in Q1FY22.
- Company incurred a capex of INR 397 0 Mn in Q1FY22
- Management expects volume growth of 20% in FY22 if things normalizes and there is no impact of 3rd Wave of Covid.

Capex:

Clinker		Cement	
Existing : 11.4 MT		Existing : 19.4 MT	
Expansion: 2.25MTPA (Kurnool)		Expansion: 1MTPA (Kurnool)	
Commission:	Expected before Q2FY22	Commission :	Expected during FY22-23
Post Expansion : 13.65 MTPA		Post Expansion : 20.40 MTPA	

Q1 FY22 - Quarterly Performance

(in INR Mn)

Particulars (INR Mn)	Q1FY22	Q4FY21	Q1FY21	Q-o-Q	Y-o-Y
Net Revenue	12,287	16,306	10,418	-24.6%	17.9%
Material Cost	5,995	8,928	5,414	-32.9%	10.7%
Employee Cost	1,050	947	975	10.9%	7.7%
Other Expenses	1,602	1,941	1,430	-17.5%	12.1%
EBITDA	3,640	4,490	2,600	-18.9%	40.0%
<i>EBITDA Margin %</i>	<i>29.6%</i>	<i>27.5%</i>	<i>25.0%</i>	<i>209bps</i>	<i>467bps</i>
Other Income	60	99	101	-39.4%	-40.5%
Depreciation	956	958	844	-0.2%	13.2%
EBIT	2,744	3,631	1,856	-24.4%	47.8%
Finance Cost	243	152	299	59.9%	-18.8%
Exceptional Item	-	-	-	-	#DIV/0!
PBT	2,501	3,479	1,557	-28.1%	60.6%
Tax Expense	811	1,335	461	-39.3%	75.9%
<i>Effective Tax Rate %</i>	<i>32.4%</i>	<i>38.4%</i>	<i>29.6%</i>	<i>-595bps</i>	<i>281bps</i>
PAT	1,690	2,144	1,096	-21.2%	54.2%
<i>PAT Margin %</i>	<i>13.8%</i>	<i>13.1%</i>	<i>10.5%</i>	<i>61bps</i>	<i>320.00</i>
EPS (Rs)	7.0	9.0	5.0	-22.2%	40.0%

Source: Company Filings, Arianth Research

Valuations

INR Mn	FY23E
EV/EBITDA (x)	14.0
EBITDA	18445
EV	258231
Debt	26847
Cash	11079
Market Cap	242463
No shares	236
CMP (INR)	1060
Target (INR)	1,029
Upside (%)	-2.9%

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, Arihant 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, Arihant 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	41.3	31.9	31.5	26.0
P/CEPS	27.1	21.9	21.3	18.0
P/BV	5.0	4.4	3.9	3.4
EV/EBITDA	24.0	17.5	17.4	14.4
Dividend Yield (%)	0.2%	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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