

**CMP: Rs 838**

**Rating: HOLD**

**Target Price: Rs 915**

**Stock Info**

BSE	500260
NSE	RAMCOCEM
Bloomberg	TRCL IN
Reuters	TRCE.BO
Sector	Cement
Face Value (Rs)	1
Equity Capital (Rs mn)	236
Mkt Cap (Rs mn)	19,7792
52w H/L (Rs)	883 / 456
Avg. Yearly Vol (in 000')	726

**Shareholding Pattern %**

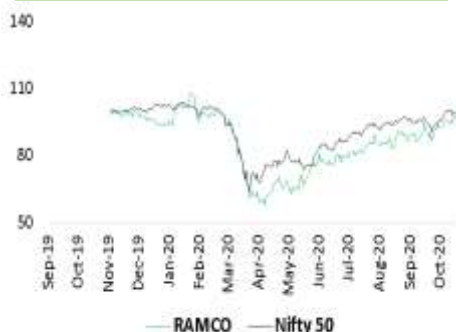
(As on September, 2020)

Promoters	42.62
FII	7.55
DII	23.64
Public & Others	26.19

**Stock Performance (%)**

	3m	6m	12m
Ramco	22.4	58.2	6.0
Nifty 50	7.5	31.1	1.7

**Ramco Cement Vs Nifty**



*Ramco Cement reported a remarkable performance at operating level in Q2FY21 with EBIDTA growing by 49.7% YoY & 70% QoQ, to Rs 4420 mn due to all-round decline in most expenses (except for employee costs). Sharp control in overheads and low-cost inventory of petcoke aided the decline in operating costs. EBITDA margin expansion of 1274 bps YoY & 1021 bps to 35.2% was mainly led by 18.2% YoY rise in realisations. Hence, net revenue de-growth was contained at 4.5% YoY but rose by 20.2% QoQ to Rs 12,570 mn, despite sales volume de-growth of 18.8% YoY to 2.21 MT due to Covid related business restrictions and monsoon. Capacity utilisation for the quarter was at 47.5% vs. 58.5% last year, 41.6% last quarter. EBITDA/tonne recorded a jump of over 85.3% YoY to Rs 2009/tonne. Improved sales of premium products also contributed to healthy realisation. However, net profit grew slightly lower at 40.2% YoY and 115% QoQ to Rs 2358 mn due to higher interest on account of debt funded capacity expansion, low other income and higher tax expense.*

**Q1FY21 Operational Highlights**

Volume declined by 18.8% YoY in Q2FY21 primarily due to the COVID induced lockdown, restrictions in containment zone and heavy rainfalls in Kerala, Karnataka, Andhra Pradesh and Telangana. Costs were lower primarily due to the commencement of WHRS in Sept'20 in Jayanthipuram, higher inventory of previous quarter's petcoke and coal (prices of the same increased in the quarter). Higher sales of premium products in the trade segment, lower variable costs and improvement in blending ratio together helped the company to report better EBITDA/mt numbers.

**Debt:** Ramco spent Rs 1,9200 mn towards capex in FY20. During H1FY21, the company incurred Rs 6850 mn. The balance capex to be incurred is Rs 8810 Mn to fund the on going capex (Odisha GU, Jayanthipuram clinker unit, WHRS, Kurnool expansion). While debt levels would rise, debt/EBITDA would improve. Average cost of interest on debt for the company is 7.3%, much lower than ROCE. Hence, once capex is complete, it would help improve ROE in double digits.

**Capex update:** In Q2FY21, the company commissioned a 9MW WHRS at Jayanthipuram as well as railway siding in the Kolaghat grinding unit. For the rest of FY21, the company will commission Railway siding in its Odisha plant in October 2020, 2<sup>nd</sup> 9MW WHRS in Jayanthipuram by Dec'20, 1.5MTPA clinkering unit and 3rd 9MW WHRS in Jayanthipuram as well as 2.25MTPA clinkering unit in Kurnool by March 2021. In FY22, 1MTPA grinding unit, 12MW WHRS and railway siding in Kurnool will be commissioned. We expect these capex measures to ease the clinker problem and help in reducing costs

**Outlook and Valuations**

Long history of operations, brand equity, low cost producer and a healthy B/S are factors that helped the company to raise debt at competitive rates. We expect these factors to drive robust performance in future as well. At CMP of Rs 838, Ramco is trading at an EV/EBITDA of 21.0x and 18.5x its FY21E/22E estimates respectively. We assign EV/EBITDA multiple at 20x to its FY22E, factoring in revival in demand in near term as well as weak raw materials and other costs for the company. With the planned capex, it will be able to increase its market share as well. Accordingly, we increase our target price to **Rs 915** (Rs 762 earlier) and maintain **HOLD** rating on the stock

## Q2 FY21 - Quarterly Performance

(in Rs Mn)

Particulars (Rs Mn)	Q2FY21	Q1FY21	Q2FY20	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>12,570</b>	<b>10,418</b>	<b>13,167</b>	<b>20.7%</b>	<b>-4.5%</b>
Material Cost	5,599	5,414	7,407	3.4%	-24.4%
Employee Cost	1,102	975	987	13.0%	11.6%
Other Expenses	1,449	1,430	1,821	1.4%	-20.4%
<b>EBITDA</b>	<b>4,420</b>	<b>2,600</b>	<b>2,952</b>	<b>70.0%</b>	<b>49.7%</b>
<i>EBITDA Margin %</i>	<i>35.2%</i>	<i>25.0%</i>	<i>22.4%</i>	<i>1021bps</i>	<i>1274bps</i>
Other Income	83	101	92	-17.5%	-9.8%
Depreciation	855	844	765	1.2%	11.6%
<b>EBIT</b>	<b>3,649</b>	<b>1,856</b>	<b>2,279</b>	<b>96.5%</b>	<b>60.1%</b>
Finance Cost	265	299	147	-11.4%	80.0%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>3,383</b>	<b>1,557</b>	<b>2,132</b>	<b>117.3%</b>	<b>58.7%</b>
Tax Expense	1,026	461	450	122.4%	127.9%
<i>Effective Tax Rate %</i>	<i>30.3%</i>	<i>29.6%</i>	<i>21.1%</i>	<i>70bps</i>	<i>920bps</i>
<b>PAT</b>	<b>2,358</b>	<b>1,096</b>	<b>1,682</b>	<b>115.1%</b>	<b>40.2%</b>
<i>PAT Margin %</i>	<i>18.8%</i>	<i>10.5%</i>	<i>12.8%</i>	<i>824bps</i>	<i>599bps</i>
<b>EPS (Rs)</b>	<b>10.0</b>	<b>4.6</b>	<b>7.1</b>	<b>117.4%</b>	<b>40.1%</b>

Source: Company Filings, Arianth Research

## Valuations

Rs Mn	FY22E
EV/EBITDA (x)	20
EBITDA	12091
EV	241830
Debt	27824
Cash	2498
Market Cap	216504
No shares	237
CMP (Rs)	838
Target (Rs)	915
<b>Upside (%)</b>	<b>9.2%</b>

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

## Key Financials

### Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	51,623	53,893	48,504	55,779
<i>Change (%)</i>	16.7%	4.4%	-10.0%	15.0%
<b>Total Expenses</b>	41,179	42,419	37,989	43,688
<b>EBITDA</b>	10,445	11,474	10,514	12,091
Other Income	250	335	243	279
Depreciation	3,000	3,165	3,652	4,162
Interest	514	721	948	1,002
<b>PBT</b>	<b>7,181</b>	<b>7,922</b>	<b>6,157</b>	<b>7,206</b>
Extra-ordinary	0	0	0	0
<b>PBT after ext-ord.</b>	<b>7,181</b>	<b>7,922</b>	<b>6,157</b>	<b>7,206</b>
Tax	2,106	1,879	1,847	2,162
<i>Rate (%)</i>	29.3%	23.7%	30.0%	30.0%
<b>PAT</b>	<b>5,075</b>	<b>6,044</b>	<b>4,310</b>	<b>5,045</b>
<b>MI &amp; Associates</b>	<b>33</b>	<b>-3</b>	<b>0</b>	<b>0</b>
<b>Consolidated PAT</b>	<b>5,107</b>	<b>6,041</b>	<b>4,310</b>	<b>5,045</b>
<i>Change (%)</i>	-9.4%	18.3%	-28.7%	17.0%

Source: Company, Arianth Research

### Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>7,181</b>	<b>7,922</b>	<b>6,157</b>	<b>7,206</b>
Depreciation	3,000	3,165	3,652	4,162
Interest & others	232	389	705	723
Cash flow before WC changes	10,412	11,477	10,514	12,091
<b>(Inc)/dec in working capital</b>	<b>741</b>	<b>447</b>	<b>803</b>	<b>428</b>
Operating CF after WC changes	11,153	11,924	11,317	12,519
Less: Taxes	(2,106)	(1,879)	(1,847)	(2,162)
<b>Operating Cash Flow</b>	<b>9,047</b>	<b>10,045</b>	<b>9,470</b>	<b>10,357</b>
(Inc)/dec in F.A + CWIP	(9,310)	(17,038)	(9,500)	(15,000)
(Pur)/sale of investment	(307)	(168)	0	0
<b>Cash Flow from Investing</b>	<b>(9,616)</b>	<b>(17,206)</b>	<b>(9,500)</b>	<b>(15,000)</b>
<b>Free Cash Flow (FCF)</b>	<b>1,495</b>	<b>(6,327)</b>	<b>(30)</b>	<b>(4,643)</b>
Loan raised/(repaid)	4,291	12,019	0	1,500
Equity raised	0	0	0	0
Interest & others	(3,266)	(567)	2,695	3,333
Dividend	(707)	(589)	(589)	(710)
<b>Cash Flow from Financing Activities</b>	<b>318</b>	<b>10,862</b>	<b>2,106</b>	<b>4,123</b>
<b>Net inc/(dec) in cash</b>	<b>(251)</b>	<b>(7)</b>	<b>2,076</b>	<b>(519)</b>
Opening balance of cash	1,199	948	942	3,017
Closing balance of cash	948	942	3,017	2,498

Source: Company, Arianth Research

### Balance Sheet

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
<b>Sources of Funds</b>				
Share Capital	236	236	236	236
Reserves & Surplus	45,134	49,778	53,499	57,833
<b>Net Worth</b>	<b>45,370</b>	<b>50,014</b>	<b>53,734</b>	<b>58,069</b>
<b>Loan Funds</b>	<b>14,305</b>	<b>26,324</b>	<b>26,324</b>	<b>27,824</b>
MI, Deferred Tax & other Liabilities	8,824	9,307	9,307	9,307
<b>Capital Employed</b>	<b>68,499</b>	<b>85,725</b>	<b>82,846</b>	<b>88,736</b>
<b>Application of Funds</b>				
Net Block	54,000	60,494	66,342	73,179
CWIP	8,526	18,404	8,404	8,404
Other Non-current Assets	2,779	3,445	3,445	3,445
Deferred Tax Assets	4	4	4	4
<b>Net Fixed Assets</b>	<b>65,308</b>	<b>82,346</b>	<b>78,194</b>	<b>85,032</b>
<b>Investments</b>	<b>2,587</b>	<b>2,755</b>	<b>2,755</b>	<b>2,755</b>
Debtors	4,901	5,276	4,651	5,349
Inventories	5,611	6,469	5,822	6,695
Cash & Bank Balance	948	942	3,017	2,498
Loans & Advances & other CA	2,683	3,540	4,917	5,395
<b>Total Current Assets</b>	<b>14,143</b>	<b>16,226</b>	<b>18,407</b>	<b>19,937</b>
Current Liabilities	13,128	15,070	15,946	18,338
Provisions	412	533	0	0
<b>Net Current Assets</b>	<b>604</b>	<b>624</b>	<b>1,897</b>	<b>950</b>
<b>Total Assets</b>	<b>68,499</b>	<b>85,725</b>	<b>82,846</b>	<b>88,736</b>

### Key Ratios

Y/E March	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>				
EPS	21.7	25.6	18.3	21.3
CEPS	34.4	39.1	33.8	38.9
BVPS	192.6	212.3	228.1	245.4
DPS	3.0	2.5	2.5	3.0
Div. Payout (%)	13.8%	9.7%	13.7%	14.1%
<b>Valuation (x)</b>				
P/E	38.7	32.7	45.8	39.3
P/CEPS	24.4	21.4	24.8	21.5
P/BV	4.4	3.9	3.7	3.4
EV/EBITDA	20.2	19.4	21.0	18.5
Dividend Yield (%)	0.4%	0.3%	0.3%	0.4%
<b>Return Ratio (%)</b>				
EBITDA Margin	20.2%	21.3%	21.7%	21.7%
PAT Margin	9.9%	11.2%	8.9%	9.0%
ROE	11.3%	12.1%	8.0%	8.7%
ROCE	10.9%	9.7%	8.3%	8.9%
<b>Leverage Ratio (x)</b>				
Total D/E	0.3	0.5	0.5	0.5
Net D/E	0.3	0.5	0.4	0.4
<b>Turnover Ratios</b>				
Asset Turnover (x)	0.8	0.6	0.6	0.6
Receivable Days	35	36	35	35
Payable days	96	102	120	120

## Arihant Research Desk

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880