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Q1FY21 result review and earnings revision

Cement

Target price: Rs780

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 1.0	↑ 1.0
EBITDA	↑ 0.9	↑ 1.4
PAT	↑ 1.2	↑ 3.9

Target price revision

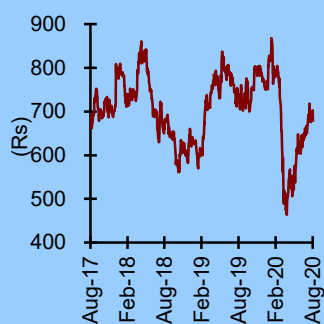
Rs780 from Rs750

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	42.7	42.7	42.7
Institutional investors	33.6	33.4	33.4
MFs and Others	21.8	23.8	23.8
FIs//Bank/Ins.	0.0	0.6	0.6
FII	11.8	8.9	8.9
Others	23.7	24.0	24.0

Source: CMIE

Price chart



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Ramco Cements

BUY

Maintained

Rs676

Capacity additions to drive market share gains

The Ramco Cements' (TRCL) Q1FY21 EBITDA declined 31% YoY to Rs2.6bn, in line with our estimates. Volume decline was lower at 28% YoY (I-Sec: 34%) despite ~70% South exposure while realisation increased 12% QoQ / 6% YoY - in line with estimates. Cost/te was up 8% YoY (I-Sec: 7%) due to external clinker purchase and higher ESOP expenses. Despite recent increase in fuel / diesel prices, overall costs increase in FY21 are likely to be contained via better cost efficiencies (WHRS, GUs) and likely rationalisation of discretionary costs such as adspend (~3% of sales or Rs150/te) and other fixed costs. Gross debt declined by Rs1.8bn QoQ to Rs28.4bn even after capex of Rs2.6bn in Q1FY21. Factoring-in the higher volumes, we raise our FY21E-FY22E EBITDA by 1-2% and target price to Rs780/share (earlier: Rs750) based on 12x Mar'22E EV/E. Maintain BUY.

- ▶ **Revenues declined 24% YoY to Rs10.4bn.** Volume decline was lower at 28% YoY to 1.94mnte owing to better growth in East (vs 45% YoY decline in South). Management said demand continues to be weak in urban / semi-urban markets. Realisation increased 12% QoQ (6% YoY) to Rs5,283/te led by sharp price increases in South.
- ▶ **Cement EBITDA/te declined 4% YoY to Rs1,285/te (I-Sec: Rs1,336/te).** Cost/te increased 8.5% YoY vs our estimate of 7.3% YoY. Raw material plus power & fuel costs/te increased 1.5% YoY / 4.8% QoQ as it included one-time consumption of purchased clinker. Freight cost/te broadly stood flat YoY and QoQ. Other expenses/te (including employee costs) declined 6% YoY / 8% QoQ owing to strong control over discretionary spend. Other expenses declined 15% YoY to Rs1.4bn while employee expenses rose 10% YoY to Rs975mn, which included Rs87mn (nil for last year) towards ESOP expenses.
- ▶ **TRCL incurred capex of ~Rs22bn (out of planned Rs33bn) till Jun'20-end.** Capex spend during the quarter was at Rs2.6bn with likely capex of Rs9bn in FY21. Railway siding at Kolaghat and 1mnte grinding unit (GU) along with railway siding in Odisha are likely to be commissioned by Sep'20. 27MW WHRS units in Jayanthipuram (three units of 9MW each) are expected to be commissioned by Sep'20 and Dec'20 respectively. 1.5mnte clinker unit along with 9MW WHRS in Jayanthipuram and 2.25mnte clinker unit in Kurnool are likely to go on-stream before Mar'21. 1mnte GU with 18MW TPP, 12 MW of WHRS and railway siding in Kurnool are to be commissioned in FY22. Gross debt fell by Rs1.8bn QoQ to Rs28.4bn as at Jun'20-end.
- ▶ **Enough levers to contain cost escalations:** New GUs are likely to provide logistics cost advantage of Rs200-300/te (Rs40-50/te at company level) while commissioning of WHRS and lower fuel prices would help reduce power & fuel costs. Discretionary costs including adspend / sales promotion, etc. (~3% of sales) are likely to be curtailed in FY21. We expect TRCL's cement EBITDA/te to increase from Rs991/te in FY20 to Rs1,248/te by FY22E.

Market Cap	Rs160bn/US\$2.1bn
Reuters/Bloomberg	RAMC.BO/TRCL IN
Shares Outstanding (mn)	235.6
52-week Range (Rs)	868/464
Free Float (%)	57.3
FII (%)	8.9
Daily Volume (US\$'000)	6,760
Absolute Return 3m (%)	23.6
Absolute Return 12m (%)	(7.8)
Sensex Return 3m (%)	22.5
Sensex Return 12m (%)	2.7

Year to Mar	2019	2020	2021E	2022E
Revenue (Rs mn)	51,623	53,893	55,118	66,082
EBITDA (Rs mn)	10,664	11,474	13,461	16,912
Net Income (Rs mn)	5,326	6,042	6,725	8,414
% Chg YoY	(3.4)	13.4	11.3	25.1
P/E (x)	32.6	26.4	23.7	19.0
CEPS (Rs)	35.3	39.1	43.1	52.5
EV/E (x)	17.7	16.0	13.7	10.6
Dividend Yield	0.4	0.4	0.4	0.4
RoCE (%)	8.7	8.2	8.3	10.2
RoE (%)	12.3	12.7	12.7	14.0

Table 1: Q1FY21 result review*(Rs mn, year ending March 31)*

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	I-Sec	Variance	%
Volumes (mn te)	1.94	2.70	(28.3)	2.93	(33.9)	1.80	7.8	
Cement realisation (Rs/te)	5,283	4,989	5.9	4,713	12.1	5,289	(0.1)	
Net sales	10,400	13,698	(24.1)	13,862	(25.0)	9,653	7.7	
Other operating income	18	141	(87.2)	37	(51.6)	42	(57.4)	
Raw material costs	1,886	2,009	(6.1)	2,361	(20.1)	1,456	29.5	
Personnel costs	975	884	10.3	846	15.2	866	12.5	
Power and fuel costs	1,511	2,661	(43)	2,544	(40.6)	1,610	(6.2)	
Freight expenses	2,018	2,811	(28.2)	3,039	(33.6)	1,858	8.6	
Other expenses	1,430	1,692	(15.5)	2,317	(38.3)	1,387	3.0	
Total expenses	7,818	10,056	(22.3)	11,107	(29.6)	7,178	8.9	
EBITDA	2,600	3,783	(31.3)	2,792	(6.9)	2,517	3.3	
EBITDA/te incl. windmill (Rs/te)	1,342	1,400	(4.1)	952	40.9	1,400	(4.2)	
Interest	299	135	121.4	216	38.6	248	20.5	
Depreciation	844	758	11.4	833	1.4	834	1.3	
Other income	101	82	23.7	114	(11.3)	59	72.1	
Recurring pre-tax income	1,557	2,972	(47.6)	1,857	(16.2)	1,494	4.2	
Extraordinary items	-	(190)		-		-		
Taxation	461	862	(46.5)	396	16.5	376	22.5	
Reported net income	1,096	1,920	(42.9)	1,462	(25.0)	1,117	(1.9)	
Recurring net income	1,096	2,110	(48.0)	1,462	(25.0)	1,117	(1.9)	
Ratios (%)								
EBITDA margins	25.0	27.6		20.1		26.1		
Net profit margins	10.5	15.4		10.5		11.6		

Source: Company data, I-Sec research

Table 2: Historical quarterly analysis on per-tonne basis*(Rs/te)*

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Sales realisation - only cement	4,989	4,708	4,475	4,713	5,283
Raw materials	743	733	834	805	974
Power & fuel	984	996	911	868	780
Freight	1,040	990	996	1,037	1,042
Staff	327	358	339	288	503
Other expenditure	607	650	682	790	738
Total cost	3,701	3,727	3,762	3,788	4,036
Other operating income	52	14	12	13	9
EBITDA/te – cement*	1,340	995	726	952	1,342

Source: Company data, I-Sec research

Table 3: Per-tonne estimates*(Rs /te)*

	FY18	FY19	FY20	FY21E	FY22E
Net realisations – cement	4,637	4,563	4,736	4,902	4,902
YoY (%)	(0.1)	(1.6)	3.8	3.5	-
Raw material consumed	806	761	780	803	810
Power and fuel	783	950	938	909	917
Freight	997	1,068	1,016	1,066	1,056
Others	984	903	1,053	978	911
Total operating expenses	3,570	3,682	3,786	3,756	3,694
YoY (%)	7.3	3.1	2.8	(0.8)	(1.6)
EBITDA/te incl. windmill	1,181	959	1,024	1,214	1,288
YoY (%)	(17.1)	(18.8)	6.8	18.5	6.1
EBITDA/te - cement only	1,129	921	991	1,189	1,248
YoY (%)	(18.3)	(18.4)	7.6	20.0	5.0

Source: Company data, I-Sec research

Table 4: Performance trend and assumptions

	FY18	FY19	FY20	FY21E	FY22E
Capacity	15,490	15,490	16,040	17,590	19,590
Capacity utilisation (%)	60	72	70	63	68
Sales	9,312	11,124	11,203	11,091	13,309
Growth (%)	11.5	19.5	0.7	(1.0)	20.0
Realisation (Rs/te)	4,637	4,563	4,736	4,902	4,902
Growth (%)	(0.1)	(1.6)	3.8	3.5	-

Source: Company data, I-Sec research

Table 5: Valuations based on 12x FY22E EV/E

(Rs.mn)

Target EV/ EBITDA multiple (x)	12
Target EV (Rs mn)	205,756
Net debt / (cash) (Rs mn)	21,946
Target value (Rs mn)	183,811
No. of shares (mn)	236
Target price per share (Rs)	780

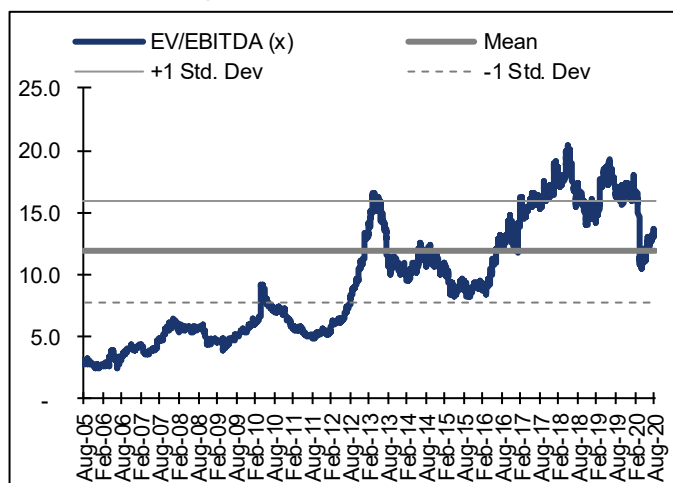
Source: I-Sec research

Table 6: Earnings revision

	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	55,118	54,593	1.0	66,082	65,451	1.0
EBITDA	13,461	13,341	0.9	16,912	16,676	1.4
PAT	6,725	6,648	1.2	8,414	8,095	3.9

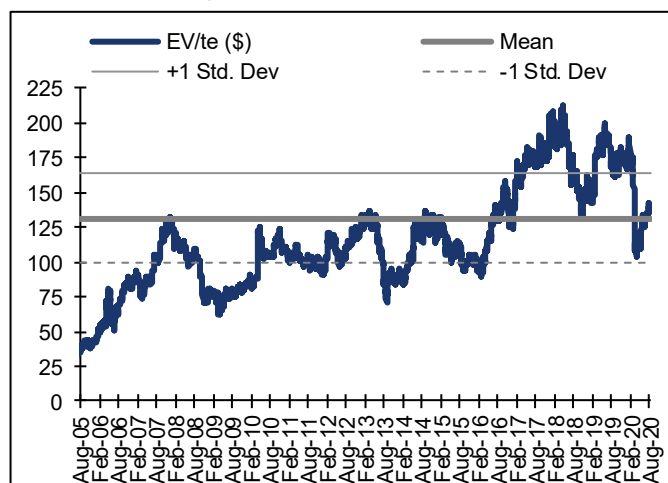
Source: Company data, I-Sec research

Chart 1: Rolling EV/EBITDA



Source: I-Sec research

Chart 2: Rolling EV/te



Source: I-Sec research

Financial summary (consolidated)

Table 7: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	51,380	53,644	54,893	65,846
Other operating income	243	250	225	236
Operating Expenses	40,960	42,419	41,657	49,170
EBITDA	10,664	11,474	13,461	16,912
% margin	20.8	21.4	24.5	25.7
Depreciation & Amortisation	3,000	3,165	3,438	3,965
Gross Interest	514	721	1,263	1,920
Other Income	250	335	235	235
Recurring PBT	7,400	7,922	8,994	11,261
Add: Extraordinaries	(219)	-	-	-
Less: Taxes	2,106	1,879	2,267	2,838
- Current tax	1,854	1,026	2,267	2,838
- Deferred tax	253	853	-	-
Net Income (Reported)	5,107	6,042	6,725	8,414
Recurring Net Income	5,326	6,042	6,725	8,414

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	15,419	19,671	20,238	22,565
Current Liab. & Prov.	11,606	11,895	11,904	13,714
Net Current Assets	3,813	7,776	8,335	8,851
Investments of which	4,206	4,225	4,225	4,225
Strategic/Group	4,206	4,225	4,225	4,225
Marketable	-	-	-	-
Net Fixed Assets*	62,409	77,428	82,989	84,024
of which				
Capital Work-in-Progress	9,811	18,143	17,143	17,143
Goodwill	-	-	-	-
Total Assets	70,428	89,429	95,549	97,100
of which cash & cash equi.	948	942	1,928	2,105
Liabilities				
Borrowings	16,369	30,241	30,241	24,051
Deferred Tax Liability	8,642	9,118	9,118	9,118
Minority Interest	47	56	56	56
Equity Share Capital	236	236	236	236
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	45,134	49,778	55,898	63,639
Net Worth	45,370	50,014	56,134	63,875
Total Liabilities	70,428	89,429	95,549	97,100

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	13,129	12,746	13,862	10,400
% growth (YoY)	11.2	5.6	(9.4)	(24.1)
Recurring EBITDA	2,965	2,029	2,792	2,600
Margin (%)	22.6	15.9	20.1	25.0
Other income	92	85	114	101
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	1,694	948	1,462	1,096

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	8,558	10,059	9,942	12,253
Working Capital changes	(975)	(2,934)	415	(447)
Capital Commitments	(12,025)	(19,195)	(9,000)	(5,000)
Net Operating FCF	(4,442)	(12,070)	1,357	6,806
Investing Activities	(134)	(246)	235	235
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	7,863	14,088	-	(6,190)
Dividend paid	(853)	(1,564)	(605)	(673)
Others	-	-	(0)	(0)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	2,434	208	986	177

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	21.7	25.6	28.5	35.7
Diluted Recurring EPS	22.6	25.6	28.5	35.7
Diluted Recurring CEPS	35.3	39.1	43.1	52.5
Dividend per share	3.0	2.5	2.6	2.9
Book Value	193	212	238	271
Growth Ratios (% YoY)				
Operating Income	16.7	4.4	2.3	20.0
EBITDA	(3.0)	7.6	17.3	25.6
Recurring Net Income	(3.4)	13.4	11.3	25.1
Diluted Recurring EPS	(3.4)	13.4	11.3	25.1
Diluted Recurring CEPS	(1.5)	10.6	10.4	21.8
Valuation Ratios (x)				
P/E	32.6	26.4	23.7	19.0
P/CEPS	19.2	17.3	15.7	12.9
P/BV	3.5	3.2	2.8	2.5
EV / EBITDA	17.7	16.0	13.7	10.6
EV / te (US\$)	170	152	138	123
EV / Operating Income	3.7	3.5	3.4	2.8
EV / Operating FCF	32.4	32.8	18.1	15.4
Operating Ratios (%)				
Raw Material / Sales	16.5	16.3	16.2	16.4
Other expenses / Sales	63.2	62.8	59.7	58.3
Other Income / PBT	3.4	4.2	2.6	2.1
Effective Tax Rate	28.5	23.7	25.2	25.2
NWC / Total Assets	0.0	0.1	0.1	0.1
Inventory (x)	3.9	3.7	3.5	4.0
Receivables (days)	33	35	34	29
Payable (days)	23	26	29	25
D/E Ratio (x)	0.3	0.8	0.7	0.5
Profitability Ratios (%)				
Rec. Net Income Margins	10.3	11.2	12.2	12.7
RoCE	8.7	8.2	8.3	10.2
RoNW	12.3	12.7	12.7	14.0
Dividend Payout	13.3	9.7	9.0	8.0

Source: Company data, I-Sec research

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