

The Ramco Cements

 BSE SENSEX
 35,697

 S&P CNX
 10,458

CMP: INR698
TP: INR745 (+7%)
Neutral


Stock Info

Bloomberg	TRCL IN
Equity Shares (m)	236
M.Cap.(INRb)/(USDb)	164.4 / 2.3
52-Week Range (INR)	883 / 684
1, 6, 12 Rel. Per (%)	3/1/-2
12M Avg Val (INR M)	289
Free float (%)	57.3

Financial Snapshot (INR bn)

Y/E Mar	2020E	2021E	2022E
Sales	55.1	61.2	72.3
EBITDA	11.4	12.9	16.0
Adj. PAT	6.1	6.6	8.0
EBITDA Margin (%)	20.7	21.1	22.1
Adj. EPS (INR)	26.0	28.1	34.1
EPS Gr. (%)	19.0	8.0	21.3
BV/Sh. (INR)	212	236	265

Ratios

Net D:E	0.5	0.5	0.3
RoE (%)	13.0	12.6	13.6
RoCE (%)	9.7	9.1	10.5
Payout (%)	13.4	14.5	13.6

Valuations

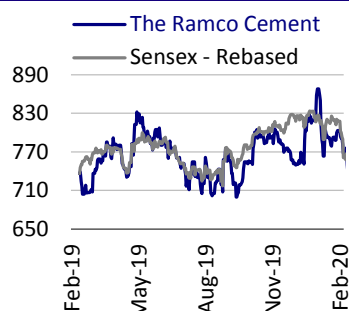
P/E (x)	31.2	28.9	23.8
P/BV (x)	3.8	3.4	3.1
EV/EBITDA(x)	17.7	15.7	13.1
EV/ton (USD)	143	143	141
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	-5.0	-0.6	5.0

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	42.7	42.7	42.8
DII	25.3	25.0	27.0
FII	11.7	11.7	11.4
Others	20.3	20.6	18.9

FII Includes depository receipts

Stock Performance (1-year)



Volume growth to be muted, price hike remains key

We met Mr S Vaithyanathan, CFO of The Ramco Cements Limited (TRCL), for an update on the company's business and growth plans. The company remains focused on growing its presence in core markets of south and east. Key takeaways:

Demand recovering, but volume growth to be muted at 5-6% in FY21

- Demand trends have been weak in south India over the past few quarters, particularly in Andhra Pradesh (due to the lack of new construction awards) where volumes are down by ~5% YoY. Tamil Nadu, however, has fared better. Demand in AP is likely to remain weak for another 6-9 months.
- Demand has picked up since Dec'19, but TRCL would likely see only 5-6% volume growth in FY21 due to constraints on clinker capacity. The company has guided for volume growth of 3-4% YoY in 9MFY21 and a pick-up thereafter from 4QFY21 once new clinker capacities start to commission.
- In the longer term, TRCL is likely to continue delivering higher volume growth than the market. It has recorded volume CAGR of 13% over FY16-20, as against 6% for the market.
- Premium products have been doing well with TRCL's launch of Supercrete in May'19 being received well across markets. It is targeted to be used in the manufacture of high-performance concrete and sells at INR20-25/bag premium.

Prices weak in south and east

- Prices in TRCL's operating markets of south and east have been muted in FY20, particularly with weak prices in AP impacting pricing in adjacent states.
- Prices in south have been trending down for the past 11 months and are lower by ~INR25/bag (7%) in FY20. Prices in TN are lowest in past five years.
- Prices in east have also been weak and are lower by ~INR30/bag (8%) in the past 10 months. They are however up 6% QoQ. Hikes undertaken by industry in east are not sustaining owing to significant capacity addition there – we expect this to continue as the region is set to see ~25% capacity expansion over the next two years.

Capacity expansion largely on track

- TRCL is expanding its capacity of clinker by 35% (3.75mtpa) and cement by 24% (4mtpa) to grow its presence in south and east.
- These capacities should commission in the next 12 months, with clinker expansions being back-ended – Jayanthipuram in Dec'19 and Kurnool in Mar'20. Cement expansions should commission in the next 1-2 months.
- TRCL is operating at ~90% clinker utilization, limiting volume growth till new clinker capacities start. Cement utilization is lower at ~80%.

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- While management does not have any plan to grow outside its core regions of south and east, the new plant Kurnool would help TRCL to increase its presence in North Karnataka and Maharashtra where it sells very limited volume.

Leverage has been rising, peak debt in 2QFY21

- Driven by total capex program of ~INR35b (USD0.5b), TRCL's net debt has increased in the past two years to ~INR27b from INR10b in FY18. Net debt/EBITDA has accordingly increased to 2.3x from 0.9x in FY18.
- With ~INR15b capex yet to be incurred, debt is guided to peak at INR34b in 2QFY21, which would imply peak net debt/EBITDA of 2.7x.
- We estimate net debt to decline subsequently to ~INR22b in FY22 as cash flows improve from commissioning of these new projects.
- Management envisages to be debt-free in the next three years, i.e. FY23.

Costs to be elevated in FY21, but fall from FY22 led by WHRS

- A&P expenses have been elevated in the past 12-15 months with TRCL focusing on increasing dealer and customer engagements to promote its new brand launches (Supercrete, etc.)
- Management expects these A&P spends to remain high in FY21 as well as it targets to grow Supercrete to ~20% of trade volumes from 5% currently.
- As part of the expansion program, TRCL is also setting up 42 MW of WHRS capacities which should help lower power cost in FY22. We estimate this to save ~INR30/t of cost in FY22 and ~INR40/t in FY23.

Valuation and view

- The stock trades at 14.3x FY21E EV/EBITDA, ~25% premium to its past 10-year average. On an asset valuation basis, it trades at ~USD125/t, which is also ~20% premium to its past 10-year average.
- We expect return ratios to remain stagnant over the next two years as the capex program gets completed and ramps up gradually in FY22. We value the stock at 13x Dec'21E EV/EBITDA to arrive at a TP of INR745. Maintain **Neutral**.

Capacity expansion to support volumes in longer term; medium-term outlook muted

Capacity expansion to drive volume growth in FY22: TRCL sells ~75% of its volumes in south India – a region where volumes have declined in FY20. However, the company has been gaining market share in the region, driven by new product launches in niche segments. It is also expanding its clinker capacity by 35% by setting up two new clinker plants in south (Andhra Pradesh) – 1.5mt at Jayanthipuram and 2.3mt at Kurnool, which should get commissioned by 4QFY21. The new clinker capacity will also serve the east India market for which TRCL is setting up 3mt grinding capacities (1mt already commissioned) – this will support market share gains there as well. For TRCL, we estimate volume CAGR of 10% over FY20-22, higher than the expected industry growth rate of 6%.

Pricing in south has been weak: Prices in south India have been on a decline for the past 11 months and are lower by ~INR25/bag (7%) in FY20. Moreover, demand in the south remains weak, which could make sustainable pricing gains difficult to achieve in the region.

Pricing outlook in east not promising as well: TRCL's commissioning of new cement grinding units in east will help it strengthen presence in the region. However, in the medium term, we see muted pricing gains in the east owing to significant capacity addition there – nearly 25% expansion over the next two years. Prices in east have been weak and are lower by ~INR30/bag (8%) in the past 10 months.

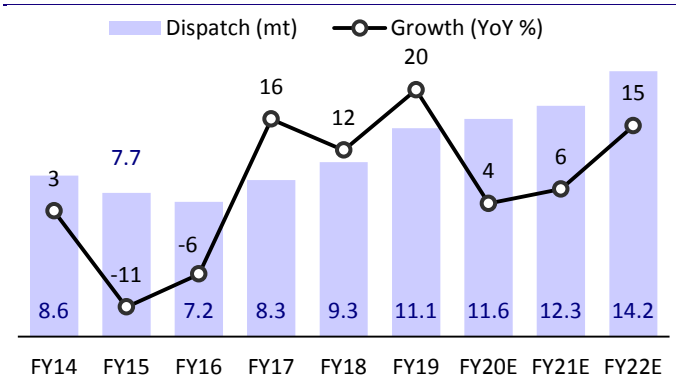
Maintain Neutral: The stock trades at 14.3x FY21E EV/EBITDA, ~25% premium to its past 10-year average. On an asset valuation basis, it trades at ~USD125/t, which is also ~20% premium to its past 10-year average. We expect return ratios to remain stagnant over the next two years as the capex program gets completed and ramps up gradually in FY22. We value the stock at 13x Dec'21E EV/EBITDA to arrive at a TP of INR745. Maintain **Neutral**.

Exhibit 1: Revised forecast

(INR M)	FY20E			FY21E			FY22E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	54,783	55,146	-0.7	58,568	61,158	-4.2	69,258	72,325	-4.2
EBITDA	11,328	11,426	-0.9	12,374	12,904	-4.1	15,578	15,969	-2.4
Net Profit	6,055	6,130	-1.2	6,207	6,619	-6.2	7,732	8,030	-3.7
EPS (INR)	25.7	26.0	-1.2	26.3	28.1	-6.2	32.8	34.1	-3.7

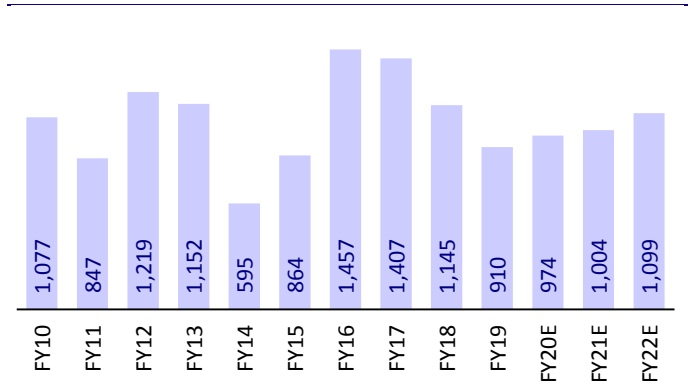
Story in Charts

Exhibit 2: Expect volume CAGR of 10% over FY20-22



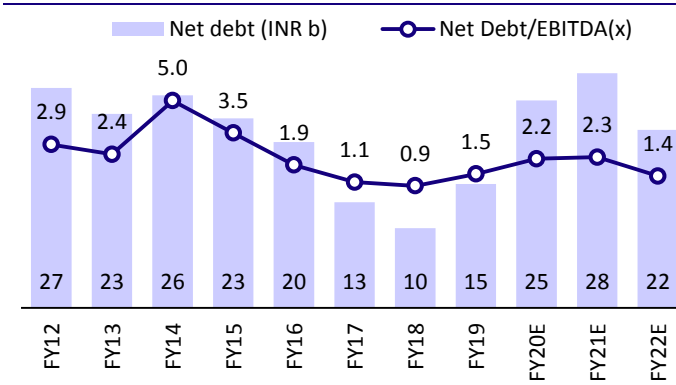
Source: MOFSL, Company

Exhibit 3: EBITDA/ton trend (INR/t)



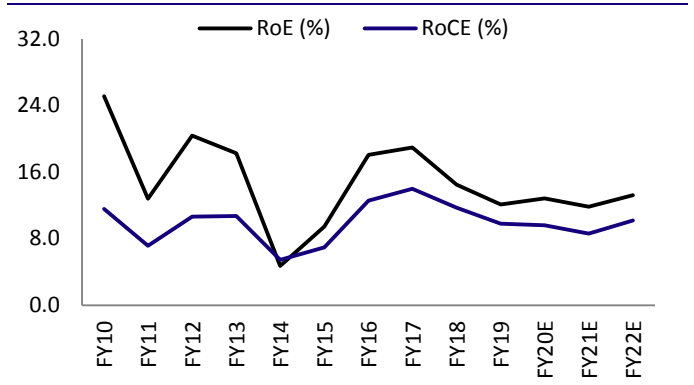
Source: MOFSL, Company

Exhibit 4: Net debt has increased due to high capex



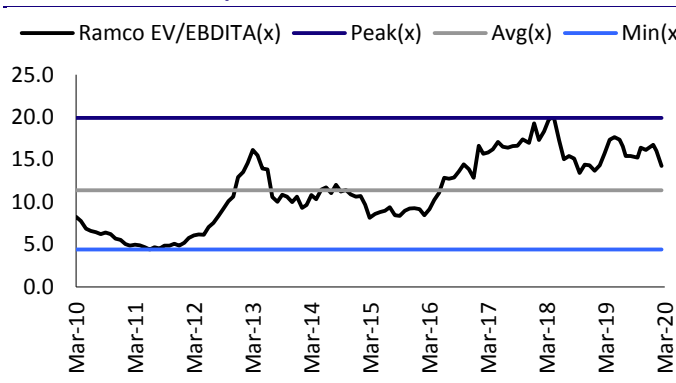
Source: MOFSL, Company

Exhibit 5: Trend in RoE and RoCE



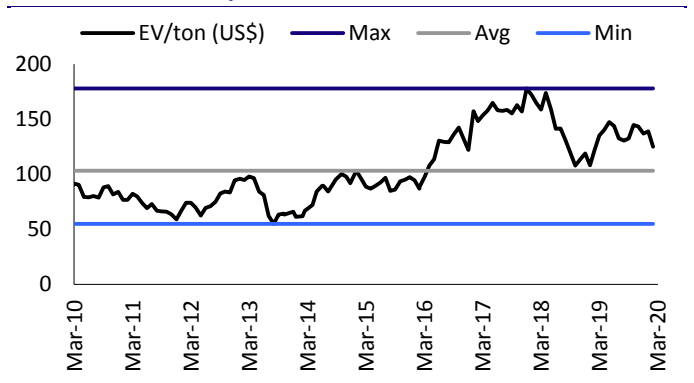
Source: MOFSL, Company

Exhibit 6: TRCL – EV/EBITDA trend



Source: MOFSL, Company

Exhibit 7: TRCL – EV/ton trend



Source: MOFSL, Company

Financials and Valuations

Income Statement								(INR M)
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Net Sales	35,939	35,507	39,292	43,851	51,220	54,783	58,568	69,258
Change (%)	-1.1	-1.2	10.7	11.6	16.8	7.0	6.9	18.3
EBITDA	6,622	10,490	11,743	10,658	10,123	11,328	12,374	15,578
Margin (%)	18.4	29.5	29.9	24.3	19.8	20.7	21.1	22.5
Depreciation	2,499	3,048	2,845	2,922	2,985	3,136	3,722	4,197
EBIT	4,123	7,442	8,898	7,736	7,138	8,192	8,653	11,381
Int. and Finance Charges	1,938	1,819	1,035	592	509	707	995	1,347
Other Income - Rec.	1,379	1,110	639	579	527	588	619	704
PBT bef. EO Exp.	3,564	6,734	8,502	7,723	7,156	8,073	8,276	10,738
EO Expense/(Income)	0	-238	-20	87	30	0	0	0
PBT after EO Exp.	3,564	6,972	8,522	7,636	7,126	8,073	8,276	10,738
Current Tax	88	1,498	1,870	1,859	1,894	2,018	2,069	3,007
Deferred Tax	1,053	53	159	220	110	0	0	0
Tax Rate (%)	32.0	22.2	23.8	27.2	28.1	25.0	25.0	28.0
Reported PAT	2,424	5,422	6,493	5,557	5,122	6,055	6,207	7,732
PAT Adj for EO items	2,424	5,184	6,473	5,644	5,152	6,055	6,207	7,732
Change (%)	111.3	113.9	24.9	-12.8	-8.7	17.5	2.5	24.6
Margin (%)	6.7	14.6	16.5	12.9	10.1	11.1	10.6	11.2
Balance Sheet								(INR M)
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Equity Share Capital	238	238	238	236	236	236	236	236
Total Reserves	26,214	30,697	37,177	40,186	44,366	49,599	54,848	61,484
Net Worth	26,452	30,935	37,415	40,422	44,601	49,834	55,083	61,720
Deferred Liabilities	8,271	7,155	7,281	7,597	8,704	8,704	8,704	8,704
Total Loans	27,119	21,230	14,248	11,132	16,187	26,687	30,187	23,687
Capital Employed	61,841	59,320	58,945	59,150	69,493	85,226	93,975	94,111
Gross Block	72,350	75,444	78,345	81,976	85,537	98,937	107,837	125,337
Less: Accum. Deprn.	23,920	26,348	28,693	31,121	34,107	37,243	40,964	45,162
Net Fixed Assets	48,429	49,097	49,652	50,854	51,431	61,694	66,873	80,175
Capital WIP	2,575	1,383	974	1,500	8,308	14,058	17,248	3,013
Total Investments	3,558	3,716	3,890	3,968	4,294	3,294	3,294	3,294
Curr. Assets, Loans&Adv.	15,763	14,746	15,573	14,581	17,049	18,573	19,978	23,668
Inventory	5,206	5,490	5,754	5,599	5,597	5,986	6,400	7,568
Account Receivables	3,802	4,721	5,549	4,423	4,900	5,240	5,603	6,625
Cash and Bank Balance	618	908	1,181	1,194	928	1,330	1,544	1,869
Loans and Advances	6,136	3,627	3,089	3,365	5,625	6,017	6,432	7,606
Curr. Liability & Prov.	8,861	9,622	11,144	11,754	11,590	12,394	13,419	16,040
Account Payables	7,238	9,238	10,643	11,183	11,180	11,957	12,783	15,117
Provisions	1,623	384	501	571	410	437	635	923
Net Current Assets	6,901	5,124	4,429	2,827	5,460	6,179	6,560	7,628
Appl. of Funds	61,841	59,320	58,945	59,150	69,492	85,225	93,973	94,110

E: MOFSL Estimates; * Adjusted for treasury stocks

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
Basic (INR)								
Consol EPS	10.2	21.8	27.2	24.0	21.9	25.7	26.3	32.8
Cash EPS	20.7	34.6	39.1	36.4	34.5	39.0	42.1	50.6
BV/Share	111.1	129.9	157.1	171.6	189.3	211.5	233.8	262.0
DPS	1.5	3.0	3.0	3.0	3.0	3.0	3.5	4.0
Payout (%)	17.8	15.9	10.9	12.7	16.6	13.6	15.4	14.2
Valuation (x)								
P/E				29.8	32.7	27.8	27.1	21.8
Cash P/E				19.7	20.7	18.3	17.0	14.1
P/BV				4.2	3.8	3.4	3.1	2.7
EV/Sales				4.0	3.4	3.3	3.1	2.7
EV/EBITDA				16.6	17.3	15.8	14.5	12.0
EV/Ton (US\$)				144	143	124	124	123
Dividend Yield (%)				0.4	0.4	0.4	0.5	0.6
Return Ratios (%)								
RoIC	5.1	10.7	12.8	10.7	9.5	10.0	9.4	10.4
RoE	9.5	18.1	18.9	14.5	12.1	12.8	11.8	13.2
RoCE	7.0	12.6	14.0	11.7	9.8	9.6	8.6	10.2
Working Capital Ratios								
Asset Turnover (x)	0.6	0.6	0.7	0.7	0.7	0.6	0.6	0.7
Inventory (Days)	52.9	56.4	53.5	46.6	39.9	39.9	39.9	39.9
Debtor (Days)	34	42	45	36	35	35	35	35
Creditor (Days)	74	95	99	93	80	80	80	80
Working Capital Turnover (Days)	64	43	30	14	32	32	31	30
Leverage Ratio (x)								
Current Ratio	1.8	1.5	1.4	1.2	1.5	1.5	1.5	1.5
Debt/Equity	1.0	0.7	0.4	0.3	0.4	0.5	0.5	0.4

Cash Flow Statement

Y/E March	2015	2016	2017	2018	2019	2020E	2021E	2022E
(INR M)								
OP/(Loss) before Tax	3,564	6,734	8,502	7,847	7,156	8,073	8,276	10,738
Depreciation	2,723	3,248	2,845	2,922	2,985	3,136	3,722	4,197
Interest & Finance Charges	1,847	1,705	774	436	404	707	995	1,347
Direct Taxes Paid	-687	-1,483	-1,894	-1,713	-1,584	-2,018	-2,069	-3,007
(Inc)/Dec in WC	2,126	930	848	1,564	-929	-317	-166	-743
CF from Operations	9,573	11,134	11,073	11,055	8,032	9,581	10,758	12,532
Others	-13	-283	-19	74	-127	0	0	0
CF from Operating incl EO	9,561	10,851	11,054	11,129	7,904	9,581	10,758	12,532
(Inc)/Dec in FA	-4,386	-2,771	-3,043	-4,942	-12,018	-19,150	-12,090	-3,265
Free Cash Flow	5,175	8,080	8,011	6,187	-4,114	-9,569	-1,332	9,267
(Pur)/Sale of Investments	7	0	0	0	9	1,000	0	0
Others	-438	1,637	-1,151	1,698	-2,588	0	0	0
CF from Investments	-4,817	-1,134	-4,194	-3,244	-14,597	-18,150	-12,090	-3,265
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-1,984	-6,517	-5,496	-4,682	7,755	10,500	3,500	-6,500
Interest Paid	-2,310	-1,621	-1,090	-658	-476	-707	-995	-1,347
Dividend Paid	-279	-1,291	0	-852	-853	-821	-958	-1,095
Others	0	0	0	-1,681	0	0	0	0
CF from Fin. Activity	-4,573	-9,428	-6,586	-7,872	6,426	8,971	1,547	-8,942
Inc/Dec of Cash	171	289	274	13	-266	402	214	325
Opening Balance	447	618	907	1,181	1,194	927	1,330	1,544
Closing Balance	618	907	1181	1194	927	1330	1,544	1,869

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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