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Company update and
earnings revision

Cement

Target price: Rs635

Earnings revision

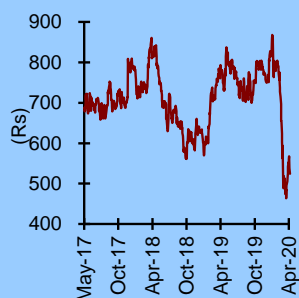
(%)	FY20E	FY21E	FY22E
Sales	↓ 0.7	↓ 3.9	↓ 2.3
EBITDA	↓ 1.8	↑ 0.0	↑ 1.1
PAT	↓ 0.4	↓ 0.4	↑ 0.6

Shareholding pattern

	Jun '19	Sep '19	Dec '19
Promoters	42.8	42.7	42.7
Institutional investors	34.9	33.3	33.6
MFs and Others	20.9	21.5	21.8
FIs//Bank/Ins.	1.9	0.0	0.0
FIIIs	12.1	11.8	11.8
Others	22.3	24.0	23.7

Source: BSE

Price chart



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Ramco Cements

BUY

Maintained

Rs552

Cautiously optimistic on demand recovery

Key takeaways from our recent interaction with Mr. A.V. Dharmakrishnan, CEO, Ramco Cement (TRCL), includes: i) the company has partially resumed operations at all its plants; expects rural/semi-urban housing demand and government spend to remain strong; ii) industry is expected to maintain pricing discipline owing to lower volumes; iii) Odisha and Vizag grinding units are likely to get commissioned in Q1FY21 while clinker lines at Jayanthipuram and Kurnool may get delayed; iv) company has incurred nearly 2/3rd of planned capex (of Rs35bn) till date; net debt is likely to peak out at Rs35bn; and v) lower fuel prices, new grinding units and WHRS to provide cost savings. We broadly maintain our FY20E-FY22E estimates with target price unchanged at Rs635/share (12x Mar'22E EV/E). Maintain BUY.

- ▶ **TRCL has partially resumed operations at all its plants** and has sufficient raw material inventory at all plant sites (for about two months). There are no constraints on operations side (barring a few logistic issues) and plants can operate at 100% utilisation in case of sufficient demand. Currently, despatches have scaled up to reasonable levels and nearly 80-85% of volumes (vs 50-60% earlier) are sold in rural/semi-urban areas, where pent-up demand remains strong. Management remains cautiously optimistic about demand recovery and expects rural demand and government demand to remain healthy in FY21E. TRCL alluded that key challenge has been to adhere to diverse and frequently changing directions given by various government authorities.
- ▶ **Commissioning of capacities likely to get delayed:** Nearly 85-90% work at 1.1mnte Vizag and 0.9mnte Odisha grinding units is complete and likely to be commissioned by Q1FY21E (earlier target was Q4FY20). TRCL did not comment on commissioning timelines of clinkerisation lines at Jayanthipuram and Kurnool. These projects were earlier targeted to be commissioned by Dec'20 and Mar'21 respectively, but may now see delays of 3-6 months, in our view.
- ▶ **TRCL has incurred nearly 2/3rd of planned capex (of Rs35bn) till date:** Net debt may inch up to Rs35bn during H1FY21E, but may come below Rs30bn by end-FY21E. Company had net debt of Rs26.8bn in Dec'19. Average cost of debt is now lower at ~7.2%. Spot petcoke prices stood at US\$60/te and management indicated to build up sufficient inventory (Rs2bn-Rs3bn) with further decline in prices.
- ▶ **EBITDA/te can be sustained / improved:** New grinding units are likely to have logistics cost advantage of Rs200-300/te (Rs40-50/te at company level); while commissioning of WHRS and lower input prices would help to reduce power & fuel cost. Discretionary costs like marketing, ad spends etc (~2% of sales) and employee costs are likely to be curtailed in the near-term. Besides, management expects industry to maintain pricing discipline owing to lower volumes to absorb higher fixed costs/te. Overall, management believe current EBITDA/te can be sustained / improved in the medium-term.

Market Cap	Rs130bn/US\$1.7bn
Reuters/Bloomberg	RAMC.BO / TRCL IN
Shares Outstanding (mn)	235.6
52-week Range (Rs)	883/456
Free Float (%)	57.3
FII (%)	11.8
Daily Volume (US\$'000)	5,199
Absolute Return 3m (%)	(29.3)
Absolute Return 12m (%)	(28.6)
Sensex Return 3m (%)	(17.0)
Sensex Return 12m (%)	(12.5)

Year to Mar	2019	2020E	2021E	2022E
Revenue (Rs mn)	51,623	53,768	52,701	63,561
EBITDA (Rs mn)	10,664	11,531	11,786	14,578
Net Income (Rs)	5,326	6,117	5,379	6,626
% Chg YoY	(3.4)	14.9	(12.1)	23.2
P/E (x)	24.4	21.3	24.2	19.6
CEPS (Rs)	35.3	39.3	38.1	45.0
EV/E (x)	13.6	13.4	13.3	10.7
Dividend Yield	0.5	0.5	0.4	0.4
RoCE (%)	8.7	8.4	6.9	8.4
RoE (%)	12.3	12.7	10.1	11.3

Table 1: Per-tonne estimates

(Rs /te)	FY18	FY19	FY20E	FY21E	FY22E
Net realisations – cement	4,637	4,563	4,668	4,696	4,722
YoY (%)	(0.1)	(1.6)	2.3	0.6	0.5
Raw material consumed	806	761	781	784	795
Power and fuel	783	950	941	912	943
Freight	997	1,068	1,005	985	995
Others	984	903	996	1,018	957
Total operating expenses	3,570	3,682	3,722	3,698	3,690
YoY (%)	7.3	3.1	1.1	(0.6)	(0.2)
EBITDA/te incl. windmill	1,181	959	1,016	1,065	1,117
YoY (%)	(17.1)	(18.8)	6.0	4.8	4.8
EBITDA/te - cement only	1,129	921	984	1,043	1,078
YoY (%)	(18.3)	(18.4)	6.8	6.0	3.3

Source: Company data, I-Sec research

Table 2: Performance trend and assumptions

	FY18	FY19	FY20E	FY21E	FY22E
Capacity	15,490	15,490	16,040	17,590	19,090
Capacity utilisation (%)	60	72	71	63	70
Sales	9,312	11,124	11,346	11,063	13,275
Growth (%)	11.5	19.5	2.0	(2.5)	20.0
Realisation (Rs/te)	4,637	4,563	4,668	4,696	4,722
Growth (%)	(0.1)	(1.6)	2.3	0.6	0.5

Source: Company data, I-Sec research

Table 3: Earnings revision

(Rs mn)	FY20E			FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	53,768	54,157	(0.7)	52,701	54,846	(3.9)	63,561	65,061	(2.3)
EBITDA	11,531	11,737	(1.8)	11,786	11,781	0.0	14,578	14,417	1.1
PAT	6,117	6,143	(0.4)	5,379	5,398	(0.4)	6,626	6,589	0.6

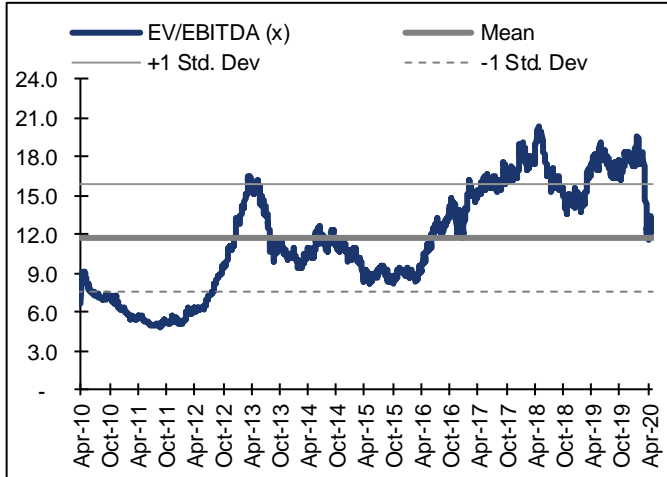
Source: I-Sec research

Table 4: Valuations based on 12x Mar'22E EV/E

(Rs.mn)	
Target EV/ EBITDA multiple (x)	12
Target EV (Rs mn)	177,876
Net debt / (cash) (Rs mn)	28,190
Target value (Rs mn)	149,868
No. of shares (mn)	236
Target price per share (Rs)	635

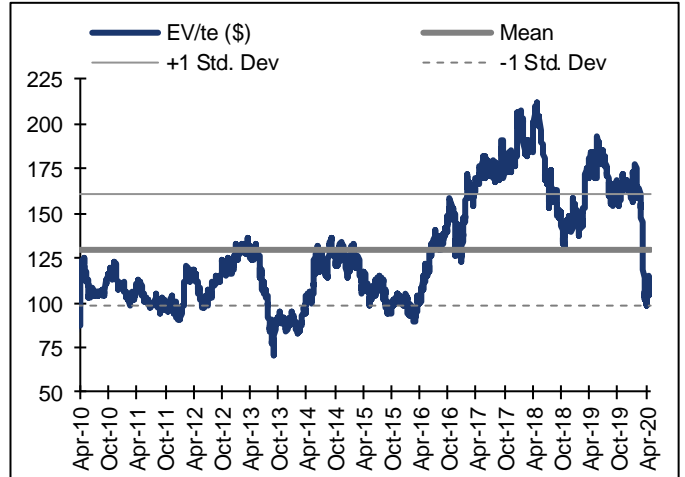
Source: I-Sec research

Chart 1: Rolling EV/EBITDA



Source: I-Sec research

Chart 2: Rolling EV/te



Financial summary (consolidated)

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Income (Sales)	51,380	53,525	52,483	63,332
Other operating income	243	243	219	230
Operating Expenses	40,960	42,237	40,916	48,983
EBITDA	10,664	11,531	11,786	14,578
% margin	20.8	21.5	22.5	23.0
Depreciation & Amortisation	3,000	3,144	3,590	3,987
Gross Interest	514	730	1,294	1,968
Other Income	250	349	245	245
Recurring PBT	7,400	8,005	7,147	8,868
Add: Extraordinaries	(219)	-	-	-
Less: Taxes	2,106	1,921	1,801	2,235
- Current tax	1,854	1,921	1,801	2,235
- Deferred tax	253	-	-	-
Net Income (Reported)	5,107	6,117	5,379	6,626
Recurring Net Income	5,326	6,117	5,379	6,626

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Assets				
Total Current Assets	14,841	18,832	18,906	20,588
Current Liab. & Prov.	11,606	11,327	9,916	10,904
Net Current Assets	3,235	7,505	8,990	9,684
Investments of which	4,206	4,206	4,206	4,206
Strategic/Group	4,206	4,206	4,206	4,206
Marketable	-	-	-	-
Net Fixed Assets*	62,987	76,843	81,253	85,265
of which				
Capital Work-in-Progress	10,388	9,388	8,388	8,388
Goodwill	-	-	-	-
Total Assets	70,428	88,554	94,449	99,155
of which cash & cash equi.	948	340	531	532
Liabilities				
Borrowings	16,369	29,112	30,112	28,722
Deferred Tax Liability	8,642	8,642	8,642	8,642
Minority Interest	47	47	47	47
Equity Share Capital	236	236	236	236
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	45,134	50,517	55,413	61,508
Net Worth	45,370	50,753	55,648	61,744
Total Liabilities	70,428	88,554	94,449	99,155

Source: Company data, I-Sec research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Mar-19	Jun-19	Sep-19	Dec-19
Net sales	15,293	13,698	13,129	12,746
% growth (YoY)	22.2	13.7	11.2	5.6
Recurring EBITDA	3,470	3,783	2,965	2,029
Margin (%)	22.7	27.6	22.6	15.9
Other income	111	82	92	85
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	1,873	2,110	1,694	948

Source: Company data

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Cashflow	8,420	8,929	8,716	10,456
Working Capital changes	(975)	(4,896)	(1,285)	(779)
Capital Commitments	(12,025)	(17,000)	(8,000)	(8,000)
Net Operating FCF	(4,580)	(12,967)	(569)	1,676
Investing Activities	4	349	245	245
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	7,863	12,743	1,000	(1,390)
Dividend paid	(853)	(734)	(484)	(530)
Others	-	(0)	0	(0)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	2,434	(609)	191	1

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	21.7	26.0	22.8	28.1
Diluted Recurring EPS	22.6	26.0	22.8	28.1
Diluted Recurring CEPS	35.3	39.3	38.1	45.0
Dividend per share	3.0	2.6	2.1	2.2
Book Value	193	215	236	262
Growth Ratios (% YoY)				
Operating Income	16.7	4.2	(1.9)	20.7
EBITDA	(3.0)	8.1	2.2	23.7
Recurring Net Income	(3.4)	14.9	(12.1)	23.2
Diluted Recurring EPS	(3.4)	14.9	(12.1)	23.2
Diluted Recurring CEPS	(1.5)	11.2	(3.2)	18.3
Valuation Ratios (x)				
P/E	24.4	21.3	24.2	19.6
P/CEPS	15.6	14.0	14.5	12.3
P/BV	2.9	2.6	2.3	2.1
EV / EBITDA	13.6	13.4	13.3	10.7
EV / te (US\$)	118	125	115	109
EV / Operating Income	2.8	3.0	3.0	2.5
EV / Operating FCF	22.7	39.4	21.5	16.4
Operating Ratios (%)				
Raw Material / Sales	16.5	16.6	16.5	16.7
Other expenses / Sales	63.2	62.3	61.4	60.7
Other Income / PBT	3.4	4.4	3.4	2.8
Effective Tax Rate	28.5	24.0	25.2	25.2
NWC / Total Assets	0.0	0.1	0.1	0.1
Inventory (x)	3.9	3.5	3.0	3.5
Receivables (days)	33	38	43	37
Payable (days)	23	22	21	17
D/E Ratio (x)	0.3	0.7	0.7	0.6
Profitability Ratios (%)				
Rec. Net Income Margins	10.3	11.4	10.2	10.4
RoCE	8.7	8.4	6.9	8.4
RoNW	12.3	12.7	10.1	11.3
Dividend Payout	13.3	10.0	9.0	8.0

Source: Company data, I-Sec research

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