

Ramco Cements

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High realization helps beat estimates; EBITDA/ton at all-time peak

CMP: Rs 797
as of (November 2, 2020)

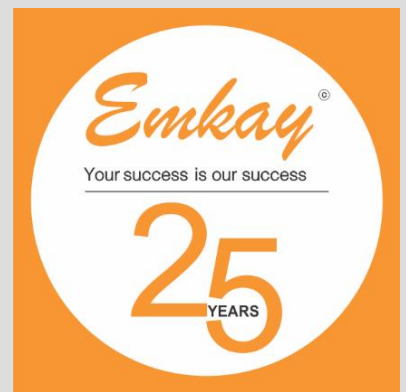
TP: Rs 801 (₹)
12 months

Rating: HOLD (₹)

Upside: 0.5 %

- Ramco Cement's Q2 results surprised positively, led by strong realization improvement (up 4.9% qoq vs. estimate of 2.5% decline). Realization improvement, despite price declines in the South region, is surprising. EBITDA stood at Rs4.42bn vs. estimated Rs3.38bn (Bloomberg Consensus at Rs3.13bn) and EBITDA/ton touched the all-time high level of Rs1,892 vs. estimated Rs1,550.
- Sales volume was down 18.8% yoy. Realization rose 17.6% yoy/4.9% qoq. Management said in the press release that higher cement prices have been led by improved sales of flagship/premium products in the trade segment.
- Opex/ton was down 1.7% yoy/8.8% qoq at Rs3,683/ton (in line with estimates). Variable cost/ton of production was down Rs176 yoy and Rs200 qoq. The fall in variable costs was led by low energy costs and high blending ratio. Freight cost was down 1.3% yoy/6.2% qoq. Other expense/ton was down 2% yoy/11.3% qoq.
- Higher realization/lower opex led to 54.4% yoy growth in the cement segment's EBITDA. EBITDA/ton was at Rs1,892 vs. Rs995/Rs1,285 in Q2FY20/Q1FY21. Sales volume of wind power fell 10.4% yoy, resulting in a 6% yoy decline in revenue of the segment. Wind mill's EBITDA was down 8.4% yoy.
- During Q2, the company has commissioned a railway siding unit in Kolaghat, West Bengal, and grinding unit (GU) in Odisha. The railway siding unit at Odisha GU has been commissioned in Oct'20. Waste Heat Recovery System (WHRS) of 9MW was commissioned at Jayanthipuram, Andhra Pradesh (AP), in Sep'20 and another 9MW WHRS will be commissioned by Dec'20.
- Clinker unit of 1.5mt along with another 9MW WHRS at Jayanthipuram and 2.25mt clinker unit in Kurnool, AP, will be commissioned before Mar'21. The grinding unit of 1mt along with 12MW WHRS and railway siding at Kurnool will be commissioned in FY22. In H1FY21, the company has incurred capex of Rs6.85bn and the balance capex toward these expansion plans will be Rs8.81bn.
- Gross debt at Sep'20 stood at Rs29.2bn vs. Rs30.2bn at Mar'20. Net debt stood at Rs28.7bn vs. Rs29.3bn at Mar'20.
- We have a Hold rating on TRCL with a TP of Rs801, valuing at 15x Dec'22E EV/EBITDA. We expect a sequential decline in cement realization in the South region in Q3FY21, however, TRCL's realization growth in Q2 is much ahead of estimates. We would review our assumptions post discussion with management or concall on November 4 (details have not yet been provided).

Please see our sector model portfolio (Emkay Alpha Portfolio): [Cement & Building Materials](#)



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Exhibit 1: Actual vs estimates (Q2FY21)

(in Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	12,570	11,520	12,595	9.1	-0.2	Led by higher realization
EBITDA	4,420	3,377	3,126	30.9	41.4	Led by higher realization
EBITDA margin (%)	35.2	29.3	24.8	584bps	1034bps	
Adj. PAT	2,358	1,620	1,644	45.6	43.4	Led by higher operating profit

Source: Company, Emkay Research, Bloomberg

Exhibit 2: Quarterly results

(Y/E Mar, Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY20	H1FY21	YoY (%)
Net Sales	13,167	12,780	13,899	10,418	12,570	(4.5)	20.7	27,006	22,988	(14.9)
Expenditure	10,202	10,751	11,107	7,818	8,150	(20.1)	4.2	20,448	15,968	(21.9)
as % of sales	77.5%	84.1%	79.9%	75.0%	64.8%			75.7%	69.5%	
Consumption of RM	1,997	2,371	2,361	1,886	1,615	(19.1)	(14.4)	4,005	3,501	(12.6)
as % of sales	15.2%	18.6%	17.0%	18.1%	12.8%			14.8%	15.2%	
Employee Cost	974	966	846	975	1,102	13.1	13.0	1,858	2,076	11.7
as % of sales	7.4%	7.6%	6.1%	9.4%	8.8%			6.9%	9.0%	
Power, Oil & Fuel	2,713	2,592	2,544	1,511	1,822	(32.8)	20.6	5,373	3,333	(38.0)
as % of sales	20.6%	20.3%	18.3%	14.5%	14.5%			19.9%	14.5%	
Transportation & Handling	2,698	2,831	3,039	2,018	2,162	(19.8)	7.2	5,508	4,180	(24.1)
as % of sales	20.5%	22.2%	21.9%	19.4%	17.2%			20.4%	18.2%	
Other expenditure	1,821	1,992	2,317	1,430	1,449	(20.4)	1.4	3,703	2,879	(22.3)
as % of sales	13.8%	15.6%	16.7%	13.7%	11.5%			13.7%	12.5%	
EBITDA	2,965	2,029	2,792	2,600	4,420	49.1	70.0	6,558	7,020	7.0
Depreciation	765	797	833	844	855	11.6	1.2	1,523	1,699	11.5
EBIT	2,200	1,232	1,960	1,756	3,565	62.1	103.1	5,035	5,321	5.7
Other Income	92	85	114	101	83	(9.8)	(17.5)	174	184	5.9
Interest	147	215	216	299	265	80.0	(11.4)	283	565	99.8
PBT	2,144	1,101	1,857	1,557	3,383	57.8	117.3	4,926	4,940	0.3
Total Tax	450	153	344	461	1,026	127.9	122.4	1,312	1,487	13.3
Adjusted PAT	1,694	948	1,514	1,096	2,358	39.2	115.1	3,614	3,454	(4.4)
Extra ordinary items	(13)	-	(52)	-	-	(100.0)	-	(13)	-	(100.0)
Reported PAT	1,682	948	1,462	1,096	2,358	40.2	115.1	3,601	3,454	(4.1)
Adjusted EPS (Rs)	7.1	4.0	6.4	4.6	9.9	39.2	115.1	15.2	14.5	(4.4)
Margins (%)						bps	bps			bps
EBITDA	22.5	15.9	20.1	25.0	35.2	1,264	1,021	24.3	30.5	625
EBIT	16.7	9.6	14.1	16.9	28.4	1,166	1,151	18.6	23.1	450
EBT	16.3	8.6	13.4	14.9	26.9	1,063	1,197	18.2	21.5	325
PAT	12.9	7.4	10.9	10.5	18.8	589	824	13.4	15.0	164
Effective Tax rate	21.0	13.9	18.5	29.6	30.3	932	70	26.6	30.1	346

Source: Company, Emkay Research

Exhibit 3: Operating cost analysis on per ton basis

Per ton costs (Rs)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY20	H1FY21	YoY (%)
Cement volumes (mt)	2.72	2.84	2.93	1.94	2.21	(18.8)	14.2	5.43	4.15	(23.5)
Raw Material	733	834	805	974	730	(0.4)	(25.0)	738	844	14.3
Employee	358	339	288	503	498	39.2	(1.1)	342	500	46.1
Power and fuel	996	911	868	780	823	(17.3)	5.6	990	803	(18.9)
Freight	990	996	1,037	1,042	977	(1.3)	(6.2)	1,015	1,007	(0.8)
Other Expenses	668	700	790	738	655	(2.0)	(11.3)	682	694	1.7
Cement Realization	4,721	4,487	4,725	5,293	5,550	17.6	4.9	4,881	5,430	11.3
Total cost	3,745	3,780	3,788	4,036	3,683	(1.7)	(8.8)	3,768	3,848	2.1
Cement EBITDA	995	726	955	1,285	1,892	90.1	47.3	1,132	1,609	42.1

Source: Company, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
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SELL	Below -5%

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