

Sharekhan revise Ramco Cements price target to Rs 1000; maintains Buy rating

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For Q3 FY21, Ramco Cements (Ramco) reported largely in-line operational performance, while net profit lagged estimates on account of a higher effective tax rate (ETR). Standalone revenues rose by 4.8% yoy (up 6.5% qoq) to Rs 1339 cr led by a 12.7% yoy rise in blended realisations on account of higher cement prices yoy in South India. Cement volumes declined by 8% yoy to 2.6 mn tonnes (although better than

Sharekhan estimates) as it faced weak demand in key Southern states owing to extended and above normal monsoon.

However, Ramco Cements registered good growth in Eastern regions. EBITDA per tonne more than doubled to Rs. 1,432 (down 15% qoq) led by higher realisations and lower power & fuel costs (down 10% yoy on per tonne basis owing to low cost inventory base for petcoke) and a fall in other expenses (of 18% yoy led by the company's austerity measure). Hence, operating profit rose 96% yoy to Rs 397 cr.

Ramco Cements Strong OPM and lower other expenses led to a net profit growth of 112% yoy to Rs 201 cr (lower than our estimates on account of a higher ETR). With regards to capacity expansions, its clinker units of 1.5 MTPA and 2.25 MTPA at Jayanthipuram and Kurnool is delayed due to COVID-led challenges and is now expected to commission during Q1FY2022 (earlier by March 2021). The 1MTPA grinding unit, a 12MW waste heat recovery system (WHRS) and an 18 MW thermal power plant in Kurnool are expected to be commissioned during FY2022.

Ramco Cements incurred a capex of Rs 1166 cr during 9M FY21 while it is left with a balance capex of Rs 537 cr for ongoing expansions. The management expects a sharp increase in volumes during FY2022.

Sharekhan have fine tuned our estimates factoring lower volume offtake and higher EBITDA/tonne for FY2021-FY2023E. Ramco Cements is trading at an EV/EBITDA of 14.2x/12.4x its FY2022E/ FY2023E earnings, which Sharekhan believes leaves room for a further upside. Sharekhan maintains Buy rating and revises target price to Rs 1000 on Ramco Cements.

Ramco Cements Key positives:

Volume offtake better-than-expected led by growth in Eastern region
Management guides for a strong volume growth in FY2022 .

Ramco Cements Key negatives:

Demand in South affected by extended and above-normal monsoon
A couple of expansion projects were delayed due to COVID-related challenges.

Ramco Cements Key Risks:

Weak demand and pricing environment in South India would affect profitability