

Ramco Cements

Leverage surge on accelerated capex

We downgrade Ramco Cements' to ADD from BUY earlier, as the sharp 30% stock price recovery in the past two months, limits upside on our TP of Rs 685 (12x FY22E EBITDA). Covid impact drove 11% vol decline in 4Q, leading to 9/14/13% fall in Rev/EBITDA/APAT. This slowed FY20 Rev/EBITDA/APAT growth to 4/10/18% YoY. As capex spend in FY20 spiked up towards ongoing expansions in east/AP, its net debt doubled and net Debt/EBITDA soared to 2.6x vs 1.4x YoY. This should cool off in FY22, once the expansions get completed by early FY22E. Avg int rate remains competitive at ~7.34%.

- Covid know down 4QFY20:** Covid lockdown in Mar'20 reduced 4Q sales by ~0.4mn MT, leading to 11% YoY vol decline to 2.9mn MT. Price recovery in south and rising brand premiumisation drove 5/2% NSR gain QoQ/YoY. On cost front, surge in adv/promo exp (Rs 220/MT vs Rs180 QoQ and Rs63 YoY) offset the benefits of lower fuel cost, thereby opex stood flat YoY. Unitary EBITDA moderated 4% YoY to Rs 955/MT. The grinding expansions - 1mn MT each in WB (Sep'19)/Vizag (Mar'20) drove up int/dep by 68/9% YoY.
- Earnings recover in FY20:** A weak 4Q further slowed FY20 vol growth to 1% YoY (and ~4% ex covid impact) as against 16% CAGR during FY16-19. Healthy pricing in 1Q/4Q drove 4% NSR rise in FY20. High adv/promo cost (Rs 152/MT vs Rs 87 YoY), and op-lev loss led to 2% opex rise. Unit EBITDA rose 10% YoY to Rs 981/MT and drove EBITDA/APAT up by 10/18% resp.
- Debt surge on accelerated capex:** During FY20, Ramco sped up capex spend (+60% YoY to Rs 19.2bn) on its 4mn MT expansion in east/AP. This led to net debt doubling to Rs 29bn, and net debt/EBITDA soared to 2.6x vs 1.4x. Avg borrowing cost remains low at 7.34%. During FY21, Ramco is targeting commissioning of 1mn MT grinding each in Odisha (Aug'20E) and Vizag (Mar'21E). Even its 3.75mn MT clinker expansions in AP/T are expected by Mar'21E. Thus, by 1QFY22, Ramco's clinker/cement capacity will rise to 14.3/20.6mn MT resp. Additional Rs 13.8bn will be spent on these (including CPP, WHRS). We estimate net debt/EBITDA to fall to 1.4x in FY22E.
- Outlook and valuation:** The co expects its adv/promo expense to fall back to below Rs 100/MT in FY21E. Further, Ramco's profitability should also gain from cement price uptick in south and low fuel prices, which should offset covid-led 14% vol decline in FY21E, in our view. We expect vol to grow 25% in FY22E, on sales normalization and ramp-up from new capacities. We increase FY21/22E EBITDA est by 4% each factoring in cost tailwinds. We continue to value it at 12x FY22E EBITDA (~10 year mean), implying TP of Rs 685. As post the recent 30% run-up, the stock is trading at rich valuation, offering limited upside, we downgrade its rating to ADD from BUY earlier.

Financial summary

YE Mar (Rs mn)	4Q FY20	4Q FY19	YoY (%)	3Q FY19	QoQ (%)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	13,899	15,324	(9.3)	12,780	8.8	44,093	51,564	53,685	47,482	60,125
EBITDA	2,792	3,251	(14.1)	2,029	37.6	10,919	10,365	11,367	11,463	14,848
APAT	1,462	1,684	(13.2)	948	54.1	5,692	5,151	6,012	5,513	6,970
AEPS (Rs)	6.2	7.1	(13.2)	4.0	54.1	24.2	21.9	25.5	23.4	29.6
EV /EBITDA (x)						14.8	16.1	15.9	16.0	11.6
EV/MT (Rs bn)						9.8	10.1	9.8	9.4	8.4
P/E (x)						26.7	29.5	25.3	27.6	21.8
RoE (%)						14.6	12.1	12.8	10.7	12.2

Source: Company, HSIE Research, Standalone Financials

ADD

CMP (as on 19 June 2020)	Rs 645
Target Price	Rs 685
NIFTY	10,244

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	Rs 670	Rs 685
EBITDA %	FY21E 3.7	FY22E 4.0

KEY STOCK DATA

Bloomberg code	TRCL IN
No. of Shares (mn)	236
MCap (Rs bn) / (\$ mn)	152/1,994
6m avg traded value (Rs mn)	453
52 Week high / low	Rs 884/455

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.7	(15.7)	(18.4)
Relative (%)	(8.1)	1.0	(7.2)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	42.66	42.66
FIs & Local MFs	21.89	24.45
FPIs	11.72	8.91
Public & Others	23.73	23.98
Pledged Shares	0.84	0.84

Source : BSE

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Sales vol declined 11% YoY to 2.93mn MT hit by Covid lockdown.

NSR increased 5% QoQ, aiding 2% YoY recovery. This is led by price uptick in south in 4Q and increasing share of premium varieties.

While opex was flat QoQ, it rose 3% YoY, led by surge in adv/promo expense

Higher opex moderated unitary EBITDA by 4% YoY to Rs 955/MT (+32% QoQ on price recovery).

Commissioning of 1mn MT each of SGU in WB and Vizag during 2HFY20 led to 8% rise in dep and 68% increase in int cost.

Quarterly Standalone Financial Snapshot

Particulars (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net Sales	13,899	15,324	(9.3)	12,780	8.8
Raw Materials (+clinker Tx)	2,361	2,805	(15.8)	2,371	(0.4)
Power and Fuel	2,544	2,938	(13.4)	2,592	(1.9)
Employee	846	823	2.7	966	(12.4)
Transport	3,039	3,454	(12.0)	2,831	7.3
Other Exp	2,317	2,053	12.8	1,992	16.3
EBITDA	2,792	3,251	(14.1)	2,029	37.6
EBITDA margin (%)	20.1	21.2		15.9	
Depreciation & Amortisation	833	767	8.6	797	4.5
EBIT	1,960	2,484	(21.1)	1,232	59.0
Other Income (Including EO Items)	114	81	41.1	85	34.6
Interest Cost	216	128	68.4	215	0.5
PBT - Reported	1,857	2,437	(23.8)	1,102	68.6
Tax	396	783	(49.5)	153	158.0
Tax rate (%)	21.3	32.1		13.9	
RPAT	1,462	1,654	(11.6)	948	54.1
EO (Loss) / Profit (Net Of Tax)	-	(30)		-	
APAT	1,462	1,684	(13.2)	948	54.1
Adj PAT margin (%)	10.5	11.0		7.4	

Source: Company, HSIE Research

Quarterly Performance Analysis

Particulars	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Sales vol (mn MT)	2.9	3.3	(10.9)	2.8	3.1
Rs/MT trend					
NSR	4,725	4,649	1.6	4,487	5.3
Raw mat (includes clinker tx)	805	853	(5.5)	834	(3.4)
Power & fuel	868	893	(2.8)	911	(4.8)
Freight	1,037	1,050	(1.3)	996	4.1
Employee	288	250	15.2	339	(15.0)
Other Exp	772	608	27.1	682	13.3
Opex	3,770	3,653	3.2	3,762	0.2
EBITDA	955	996	(4.1)	726	31.6

Source: Company, HSIE Research

We have updated our fin model for FY19/20 P&L, BS and CF statements as reported.

Ramco's vol growth slowed to 1% YoY in FY20 hit by weak demand in south during the year & covid impact in 4Q.

We expect Covid to drive 14% vol decline in FY21, but expect it to recover by 25% in FY22E (demand normalisation and expansions ramp-up)

We factor in stable NSR during FY21/22E. This along with low energy costs and redn in promo cost to boost op margin at ~Rs1,180/MT levels in FY21/22E.

We cut vol est by 10/6% for FY21/22E factoring in higher impact of Covid lockdown on demand

However, we increase margin est on better realisation and lower cost outlook. Thus, we increase EBITDA est by 4% each for FY21/22E

Operational Trends and Assumptions

Particulars	FY17	FY18	FY19	FY20	FY21E	FY22E
Cement Cap (mn MT)	16.5	16.5	16.5	18.5	19.6	20.6
Sales Volume (mn MT)	8.4	9.3	11.1	11.2	9.6	12.0
YoY change (%)	15.8	11.2	19.4	0.7	(14.0)	25.0
Utilisation (%)	50.8	56.4	67.4	60.6	49.2	58.5
(Rs/ MT trend)						
NSR (1)	4,629	4,663	4,581	4,740	4,877	4,938
YoY change (%)	(5.1)	0.7	(1.7)	3.5	2.9	1.3
Raw Materials (clinker Tx)	800	814	762	780	764	780
Power & Fuel	617	783	951	938	891	918
Freight costs	881	997	1,068	1,016	995	1,005
Employee cost	332	326	296	329	371	364
Other expense	640	623	610	696	695	675
Total Opex	3,271	3,544	3,687	3,759	3,717	3,741
EBITDA per MT	1,359	1,119	895	981	1,160	1,197

Source: Company, HSIE Research

Change in Estimates

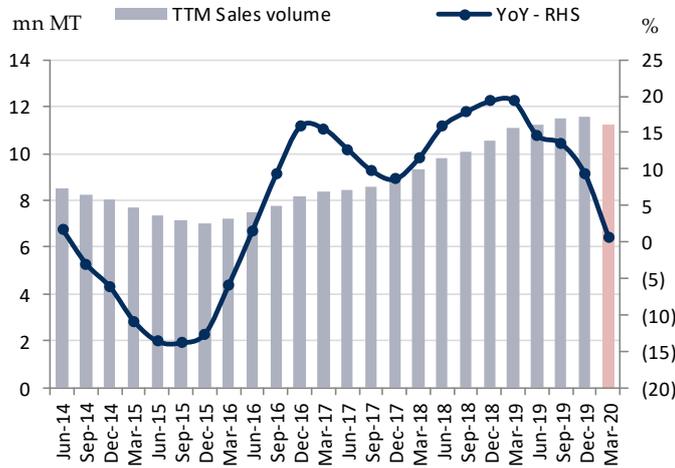
Rs Mn	FY21E Old	FY21E Revised	Change %	FY22E Old	FY22E Revised	Change %
Net Revenues	50,479	47,482	(5.9)	61,910	60,125	(2.9)
EBITDA	11,050	11,463	3.7	14,275	14,848	4.0
APAT	5,278	5,513	4.5	7,254	6,970	(3.9)
AEPS	22.4	23.4	4.5	30.8	29.6	(3.9)

Source: Company, HSIE Research

Long term op performance trends (TTM basis)

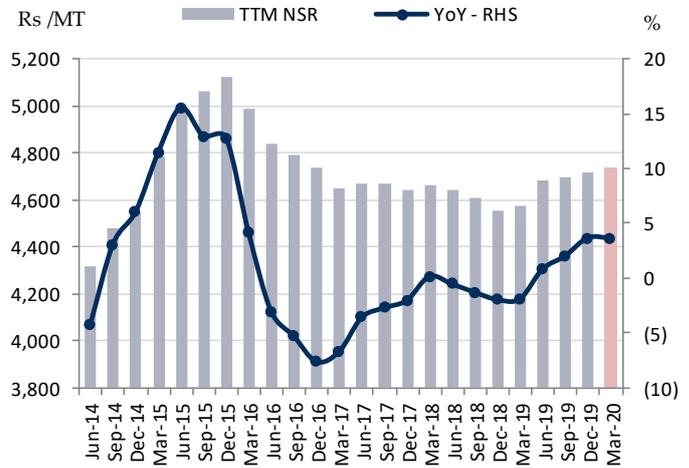
We have plotted Ramco Cements' operating metrics on trailing 12-month (TTM) basis, to assess its long term performance trends

Ramco's vol growth flattened in FY20 hit by weak demand in south during the year & covid impact in 4Q!



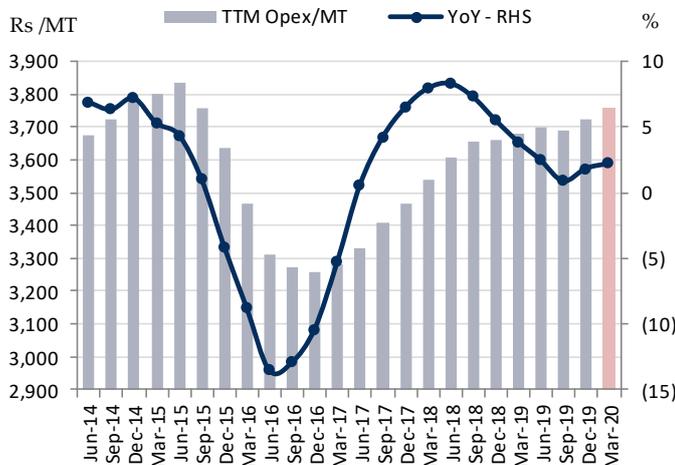
Source: Company, HSIE Research

NSR firmed up to 4-yr high on price recovery in south and increasing brand premiumisation



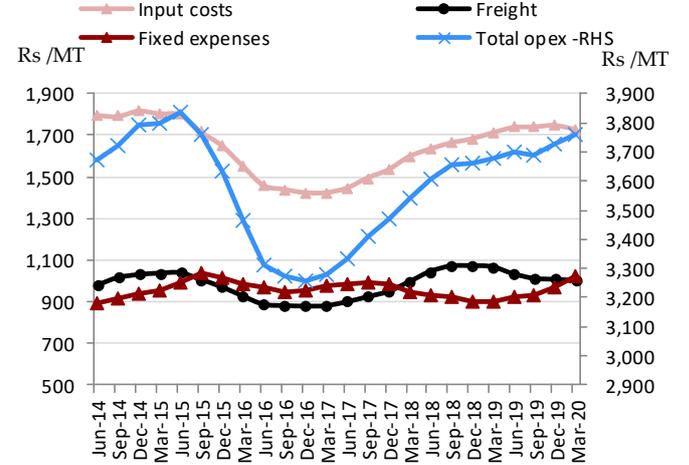
Source: Company, HSIE Research

Increase in Adv/promo exp inflated opex by 2% YoY despite falling petcoke prices



Source: Company, HSIE Research

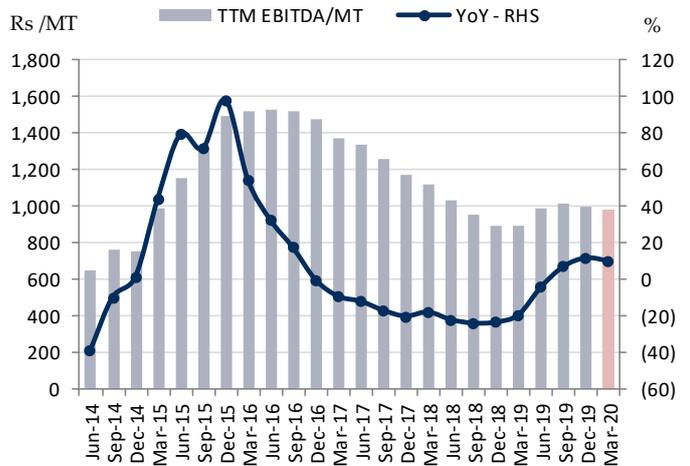
Opex trends: Freight cost trended down, stable input costs while fixed cost curved up



Source: Company, HSIE Research

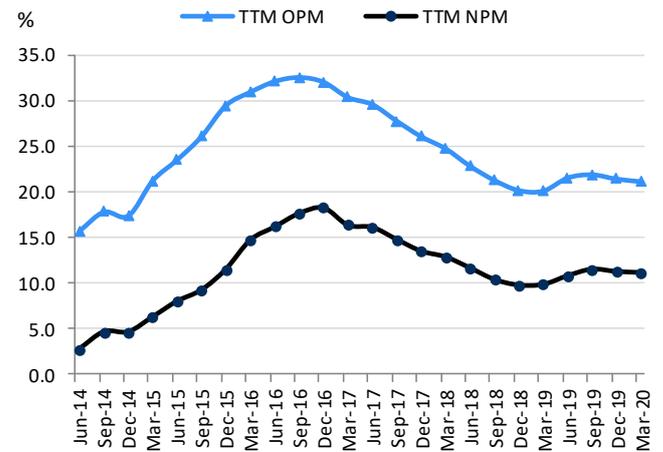
Long term performance trends (TTM basis) continued

Unitary EBITDA recovered in FY20 amid better realisation and stable opex



Source: Company, HSIE Research

Ramco's OPM/NPM trends



Source: Company, HSIE Research

Peer Set Comparison

Company	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	EV/EBITDA			EV/MT (Rs bn)			Net D:E (x)			RoE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
UltraTech Cement	1,054	3,837	BUY	4,720	13.5	15.2	12.4	11.01	10.56	9.92	0.4	0.3	0.2	10.4	7.6	9.5
Shree Cement	755	21,679	REDUCE	17,900	20.2	23.4	19.2	17.16	16.73	15.37	(0.3)	(0.3)	(0.3)	13.9	7.9	9.7
Ambuja Cements	379	191	BUY	210	10.0	11.2	9.5	7.27	6.87	6.85	(0.7)	(0.7)	(0.7)	6.8	5.3	6.0
ACC	239	1,273	BUY	1,440	8.0	10.9	9.0	6.06	6.21	6.27	(0.4)	(0.4)	(0.3)	11.6	8.4	10.6
Ramco Cements	152	645	ADD	685	15.9	16.0	11.6	9.79	9.36	8.36	0.6	0.6	0.3	12.8	10.7	12.2
Dalmia Bharat	111	574	BUY	930	7.2	9.3	6.7	5.77	5.05	3.93	0.4	0.4	0.3	2.1	(1.5)	1.3
JK Cement	106	1,378	BUY	1,425	11.1	12.4	10.1	8.02	7.93	8.07	0.9	0.9	0.8	17.4	11.3	15.1
Star Cement	36	87	BUY	100	8.8	9.3	8.0	6.05	6.35	6.68	(0.1)	(0.0)	0.1	15.7	13.5	16.1
JK Lakshmi	30	256	BUY	370	6.0	7.7	6.7	3.43	3.43	3.63	0.6	0.5	0.6	16.2	9.0	11.4
Orient Cement	15.0	73	BUY	85	7.0	7.8	6.4	3.34	3.14	3.15	1.1	0.9	0.8	8.0	4.6	9.6
Deccan Cements	3.9	280	BUY	370	4.7	4.5	4.5	1.63	1.52	2.15	(0.1)	(0.1)	0.2	9.9	7.9	11.8

Source: Company, HSIE Research, For ACC and Ambuja, the financial year is CY19/CY20E/CY21E resp

Financials

Standalone Income Statement

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Revenues	39,495	44,093	51,564	53,685	47,482	60,125
<i>Growth %</i>	<i>10.5</i>	<i>11.6</i>	<i>16.9</i>	<i>4.1</i>	<i>(11.6)</i>	<i>26.6</i>
Raw Material	7,164	7,721	8,652	8,264	7,364	9,389
Power & Fuel	5,164	7,291	10,573	10,509	8,586	11,054
Freight Expense	7,383	9,281	11,880	11,379	9,590	12,108
Employee cost	2,777	3,040	3,295	3,682	3,578	4,383
Other Expenses	5,061	5,842	6,799	8,485	6,902	8,342
EBITDA	11,947	10,919	10,365	11,367	11,463	14,848
<i>EBITDA Margin (%)</i>	<i>30.2</i>	<i>24.8</i>	<i>20.1</i>	<i>21.2</i>	<i>24.1</i>	<i>24.7</i>
<i>EBITDA Growth %</i>	<i>11.5</i>	<i>(8.6)</i>	<i>(5.1)</i>	<i>9.7</i>	<i>0.8</i>	<i>29.5</i>
Depreciation	2,845	2,922	2,985	3,153	3,312	4,163
EBIT	9,102	7,997	7,380	8,214	8,151	10,686
Other Income (Including EO Items)	435	232	192	372	400	650
Interest	1,035	592	509	713	1,200	2,042
PBT	8,501	7,636	7,063	7,873	7,351	9,294
Tax	2,009	2,079	2,004	1,861	1,838	2,323
RPAT	6,493	5,557	5,059	6,012	5,513	6,970
EO (Loss) / Profit (Net Of Tax)	-	(135)	(93)	-	-	-
APAT	6,493	5,692	5,151	6,012	5,513	6,970
<i>APAT Growth (%)</i>	<i>25.3</i>	<i>(12.3)</i>	<i>(9.5)</i>	<i>16.7</i>	<i>(8.3)</i>	<i>26.4</i>
AEPS	27.3	24.2	21.9	25.5	23.4	29.6
<i>AEPS Growth %</i>	<i>25.3</i>	<i>(11.4)</i>	<i>(9.5)</i>	<i>16.7</i>	<i>(8.3)</i>	<i>26.4</i>

Source: Company, HSIE Research

Standalone Balance Sheet

YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
SOURCES OF FUNDS						
Share Capital	238	236	236	236	236	236
Reserves And Surplus	37,177	40,186	44,366	48,950	53,874	60,138
Total Equity	37,415	40,422	44,601	49,186	54,110	60,373
Long-term Debt	7,903	5,305	9,051	22,321	25,321	15,405
Short-term Debt	6,345	5,826	7,136	8,000	8,000	8,000
Total Debt	14,248	11,132	16,187	30,322	33,321	23,405
Deferred Tax Liability	7,281	7,951	8,704	9,172	10,008	10,844
Long-term Liab+ Provisions	151	214	288	369	369	369
TOTAL SOURCES OF FUNDS	59,096	59,718	69,780	89,048	97,808	94,991
APPLICATION OF FUNDS						
Net Block	52,059	53,230	53,977	60,532	83,220	84,558
Capital WIP	974	1,500	8,308	18,143	4,143	393
Goodwill	-	-	-	-	-	-
Other Non-current Assets	1,387	1,598	3,291	4,229	4,028	4,028
Total Non-current Investments	1,218	1,319	1,481	1,631	1,631	1,631
Total Non-current Assets	55,638	57,648	67,057	84,534	93,022	90,609
Inventories	5,754	5,599	5,597	6,453	5,854	7,413
Debtors	5,549	4,423	4,900	5,269	4,553	5,765
Cash and Cash Equivalents	1,446	1,468	1,194	1,170	1,827	3,230
Other Current Assets (& Loans/adv)	1,702	1,791	2,334	3,044	2,822	2,922
Total Current Assets	14,451	13,281	14,025	15,936	15,057	19,331
Creditors	2,558	2,671	2,572	3,414	2,862	3,624
Other Current Liabilities & Provns	8,436	8,539	8,730	8,008	7,408	11,325
Total Current Liabilities	10,994	11,211	11,302	11,422	10,270	14,949
Net Current Assets	3,458	2,070	2,723	4,514	4,786	4,382
TOTAL APPLICATION OF FUNDS	59,096	59,718	69,780	89,048	97,808	94,991

Source: Company, HSIE Research

Standalone Cash Flow

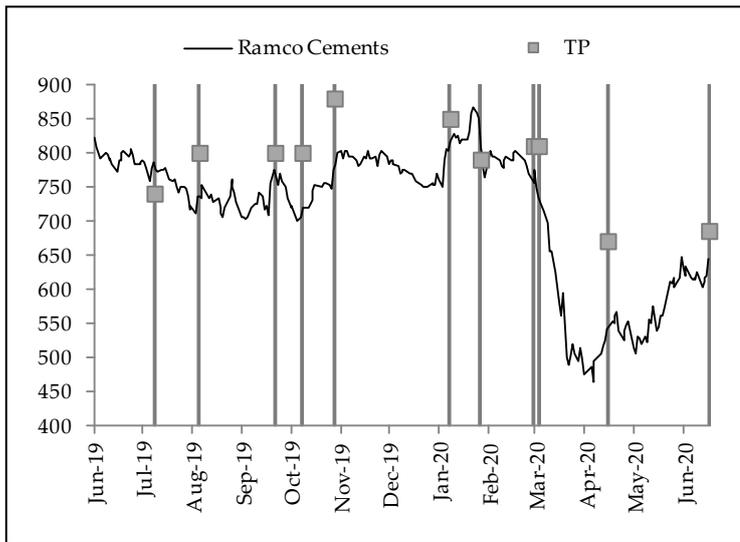
YE Mar (Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	8,502	7,847	7,156	7,872	7,351	9,294
Non-operating & EO Items	(281)	(82)	(232)	(41)	(400)	(650)
Interest Expenses	1,035	592	509	714	1,200	2,042
Depreciation	2,845	2,922	2,985	3,153	3,312	4,163
Working Capital Change	813	1,564	(929)	(2,921)	585	1,808
Tax Paid	(1,860)	(1,713)	(1,584)	(1,376)	(1,002)	(1,487)
OPERATING CASH FLOW (a)	11,054	11,129	7,904	7,400	11,046	15,169
Capex	(3,043)	(4,942)	(12,018)	(19,193)	(12,000)	(1,750)
Free Cash Flow (FCF)	8,011	6,187	(4,114)	(11,793)	(954)	13,419
Investments	(25)	(65)	(63)	(387)	-	-
Non-operating Income	310	177	173	256	400	650
Others						
INVESTING CASH FLOW (b)	(2,758)	(4,830)	(11,909)	(19,325)	(11,600)	(1,100)
Debt Issuance/(Repaid)	(5,496)	(4,682)	7,755	14,270	3,000	(9,917)
Interest Expenses	(1,090)	(658)	(476)	(580)	(1,200)	(2,042)
FCFE	1,425	847	3,165	1,897	846	1,460
Share Capital Issuance	-	(1,681)	-	-	-	-
Dividend	-	(852)	(853)	(1,564)	(589)	(707)
FINANCING CASH FLOW (c)	(6,586)	(7,872)	6,426	12,127	1,211	(12,666)
NET CASH FLOW (a+b+c)	1,710	(1,573)	2,422	202	657	1,403
EO Items, Others						
Closing Cash & Equivalents	2,871	(127)	3,889	1,396	1,827	3,230

Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY %						
EBITDA Margin	30.2	24.8	20.1	21.2	24.1	24.7
EBIT Margin	23.0	18.1	14.3	15.3	17.2	17.8
APAT Margin	16.4	12.9	10.0	11.2	11.6	11.6
RoE	19.0	14.6	12.1	12.8	10.7	12.2
RoIC	12.0	10.0	8.3	8.0	6.7	8.5
RoCE	12.3	10.2	8.5	8.3	6.9	8.8
EFFICIENCY						
Tax Rate %	23.6	27.2	28.4	23.6	25.0	25.0
Fixed Asset Turnover (x)	0.5	0.5	0.6	0.6	0.4	0.5
Inventory (days)	53	46	40	44	45	45
Debtors (days)	51	37	35	36	35	35
Other Current Assets (days)	16	15	17	21	22	18
Payables (days)	24	22	18	23	22	22
Other Current Liab & Provns (days)	78	71	62	54	57	69
Cash Conversion Cycle (days)	19	5	11	23	23	7
Net Debt/EBITDA (x)	1.1	0.9	1.4	2.6	2.7	1.4
Net D/E	0.3	0.2	0.3	0.6	0.6	0.3
Interest Coverage	8.8	13.5	14.5	11.5	6.8	5.2
PER SHARE DATA (Rs)						
EPS	27.3	24.2	21.9	25.5	23.4	29.6
CEPS	39.2	36.6	34.5	38.9	37.5	47.3
Dividend	3.0	3.0	3.0	2.5	2.5	3.0
Book Value	157.1	171.6	189.3	208.8	229.7	256.3
VALUATION						
P/E (x)	23.4	26.7	29.5	25.3	27.6	21.8
P/Cash EPS (x)	16.3	17.9	18.9	16.6	17.2	13.6
P/BV (x)	4.1	3.8	3.4	3.1	2.8	2.5
EV/EBITDA (x)	13.8	14.8	16.1	15.9	16.0	11.6
EV/MT (Rs bn)	10.0	9.8	10.1	9.8	9.4	8.4
Dividend Yield (%)	0.5	0.5	0.5	0.4	0.4	0.5
OCF/EV (%)	6.7	6.9	4.7	4.1	6.0	8.8
FCFE/EV (%)	4.9	3.8	(2.5)	(6.5)	(0.5)	7.8
FCFE/M Cap (%)	0.9	0.6	2.1	1.2	0.6	1.0

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Jul-19	779	NEU	740
8-Aug-19	738	NEU	800
22-Sep-19	757	NEU	800
10-Oct-19	706	BUY	800
30-Oct-19	776	BUY	880
10-Jan-20	803	BUY	850
30-Jan-20	810	NEU	790
2-Mar-20	768	ADD	810
5-Mar-20	750	ADD	810
17-Apr-20	525	BUY	670
21-Jun-20	645	ADD	685

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

We, **Rajesh Ravi, MBA & Saurabh Dugar, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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