22 May 2023

Ramco Cements

Rating: **Buy**
Target Price (12-mth): Rs.1047
Share Price: Rs.843

Greater profitability on the cards; retaining a Buy

Capacity ramp-up leading to higher utilisation along with cost-efficient capex helped Ramco report a strong Q4. With ~22m tpa now, added capex for the next phase of expansion would be much lower, resulting in higher return ratios. The sharper focus on improving operating efficiency and the share of green energy are positives. We retain our Buy rating, at a higher 12-mth TP of Rs1,047 (earlier Rs838), 14x FY25e EV/ EBITDA.

Robust volumes. The ramped-up higher capacity and firm demand pushed up cement volumes 45.6% y/y to 4.7m tons (realisations up 3.5% y/y), leading to revenue rising 50.7% y/y to Rs25.6bn. Capacity utilisation was 85% (66% a year ago) with Kurnool clinker utilisation at 83%. Cement volumes were guided to grow 20% in FY24 (FY23 ~34.9%), but the pricing situation is still uncertain. We expect 14%/16% volume/revenue CAGRs over FY23-25 from capacity ramp-ups.

Greater profitability in sight. EBITDA rose 41.7% y/y to Rs4bn. EBITDA/ton was down 2.7% y/y to Rs855 on higher costs. While spot fuel prices fell to $125/ton ($178 the prior quarter), savings would come from Q2 FY24. The share of green energy would rise to 34% in FY24 (22% in FY23). The greater share of captive wind power, cost-efficient capex (railway siding, etc.) would improve the operating performance. We expect a 35% EBITDA CAGR over FY23-25.

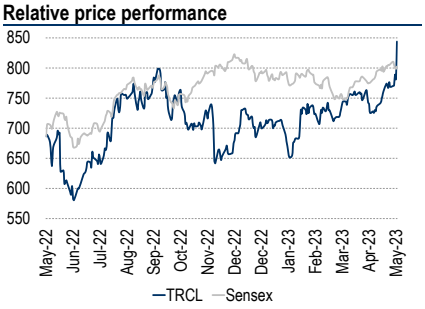
Business outlook, valuations. The 0.9m ton Odisha GU will commence by Q3 FY24 taking overall capacity to ~22.8m tons. In the next phase of expansion the company will set up Kurnool Line II; it has started buying land for the Karnataka expansion. Net debt at 31st Mar'23 was Rs43.51bn; peak net debt/EBITDA is guided to be 2x-2.5x. While cost-saving levers are in place to improve operating efficiency, land monetisation (~Rs3bn-4bn) is on the cards to fund expansions. Further, softening fuel costs would reduce working capital. We retain our Buy rating, at a 12-mth TP of Rs1,047, 14x FY25e EV/EBITDA. **Risks:** Demand slowdown; rise in pet-coke/diesel costs.

Key data	TRCL IN / MSCM.BO
52-week high / low	Rs850 / 575
Sensex / Nifty	61730 / 18203
3-m average volume	$4.5m
Market cap	Rs199bn / $2412.2m
Shares outstanding	236m

Shareholding pattern (%)	Mar'23	Dec'22	Sep'22
Promoters	42.3	42.3	42.3
- of which, Pledged	*22.0*	*21.9*	*21.9*
Free float	57.7	57.7	57.7
- Foreign institutions	7.6	7.1	6.6
- Domestic institutions	32.5	32.3	33.7
- Public	17.7	18.3	17.3

Estimates revision (%)	FY24e	FY25e
Sales	9.2	12.2
EBITDA	21.3	25.7
PAT	36.8	36.7

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY21	FY22	FY23	FY24e	FY25e
Sales (Rs m)	51,887	58,972	80,523	93,984	108,154
Net profit (Rs m)	7,611	8,927	3,435	5,714	9,058
EPS (Rs)	32.3	37.8	14.5	24.2	38.3
P/E (x)	31.1	20.4	52.0	34.9	22.0
EV / EBITDA (x)	18.1	18.3	20.2	15.8	11.6
EV / ton ($)	167.3	137.9	123.5	129.4	125.2
RoE (%)	14.4	14.7	5.2	8.1	11.7
RoCE - after tax (%)	8.0	8.5	3.7	5.4	7.7
Dividend yield (%)	0.3	0.4	0.3	0.2	0.2
Net debt / equity (x)	0.5	0.6	0.6	0.6	0.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23	FY24e	FY25e
Sales volumes (m tons)	10.0	11.1	15.0	17.3	19.5
Net revenues	51,887	58,972	80,523	93,984	108,154
Growth (%)	-1.8	13.7	36.5	16.7	15.1
Direct costs	26,861	34,936	56,076	63,378	70,713
SG&A	10,344	12,026	13,458	15,246	17,280
EBITDA	**14,682**	**12,011**	**10,990**	**15,360**	**20,160**
EBITDA margins (%)	28.3	20.4	13.6	16.3	18.6
- Depreciation	3,553	4,008	5,044	6,040	6,654
Other income	1,144	1,134	1,197	1,222	1,406
Interest expenses	876	1,124	2,405	2,662	2,422
PBT	11,397	8,012	4,737	7,879	12,490
Effective tax rate (%)	33.22	-11.41	27.48	27.48	27.48
+ Associates / (Minorities)	-	-	-	-	-
Net income	7,611	8,927	3,435	5,714	9,058
Adjusted income	7,611	8,927	3,435	5,714	9,058
WANS	236	236	236	236	236
FDEPS (Rs / sh)	32.3	37.8	14.5	24.2	38.3
FDEPS growth (%)	26.46	17.10	-61.52	66.32	58.53

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23	FY24e	FY25e
Share capital	236	236	236	236	236
Net worth	56,268	65,249	67,935	73,177	81,762
Debt	31,017	39,300	44,874	43,874	36,874
Minority interest	-	-	-	-	-
DTL / (Assets)	10,877	8,240	9,285	9,285	9,285
Capital employed	**98,162**	**112,789**	**122,095**	**126,336**	**127,922**
Net tangible assets	66,629	74,634	98,657	117,410	118,256
Net intangible assets	577	674	900	900	900
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	23,552	30,340	19,873	3,500	2,500
Investments (strategic)	4,363	4,213	4,202	4,202	4,202
Investments (financial)	7	7	7	7	7
Current assets (excl. cash)	16,912	18,926	19,844	26,006	30,816
Cash	1,419	1,760	1,686	1,089	2,057
Current liabilities	15,296	17,767	23,074	26,779	30,816
Working capital	1,616	1,160	-3,231	-772	-
Capital deployed	**98,162**	**112,789**	**122,095**	**126,336**	**127,922**
Contingent liabilities	-	-	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23	FY24e	FY25e
PBT (adj.. OI and iterest)	11,129	8,002	5,945	9,319	13,506
+ Non-cash items	3,553	4,008	5,044	6,040	6,654
Oper. prof. before WC	14,682	12,011	10,990	15,360	20,160
- Incr. / (decr.) in WC	-5,507	-457	-4,390	2,458	772
Others incl. taxes	2,440	1,768	257	2,065	3,332
Operating cash-flow	17,749	10,699	15,123	10,837	16,056
- Capex (tang. + intang.)	18,024	18,900	18,826	8,420	6,500
Free cash-flow	-275	-8,200	-3,703	2,417	9,556
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	708	709	473	473	473
+ Equity raised	0	0	-	-	-
+ Debt raised	776	8,282	5,575	-1,000	-7,000
- Fin investments	94	-150	-11	-	-
- Misc. (CFI + CFF)	-805	-819	1,484	1,541	1,116
Net cash-flow	504	342	-74	-596	967

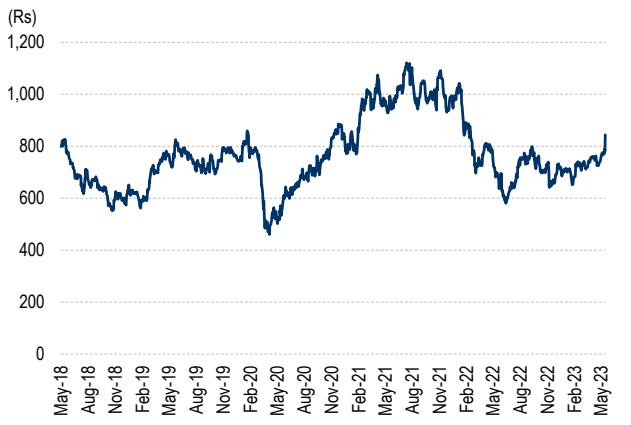
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23	FY24e	FY25e
P/E (x)	31.1	20.4	52.0	34.9	22.0
EV / EBITDA (x)	18.1	18.3	20.2	15.8	11.6
EV / Sales (x)	5.1	3.7	2.8	2.6	2.2
P/B (x)	4.2	2.8	2.6	2.7	2.4
RoE (%)	14.4	14.7	5.2	8.1	11.7
RoCE (%) - after tax	8.0	8.5	3.7	5.4	7.7
DPS (Rs / sh)	3.0	3.0	2.0	2.0	2.0
Dividend payout (%) - incl. DDT	9.3	7.9	13.8	8.3	5.2
Net debt / equity (x)	0.5	0.6	0.6	0.6	0.4
WC days	11.4	7.2	-14.6	-3.0	-
EV / ton ($)	167.3	137.9	123.5	129.4	125.2
NSR / ton (Rs)	5,201	5,294	5,359	5,439	5,539
EBITDA / ton (Rs)	1,472	1,078	731	889	1,033
Volumes (m tons)	9.98	11.14	15.03	17.28	19.52
CFO : PAT (%)	233.2	119.9	440.2	189.7	177.3

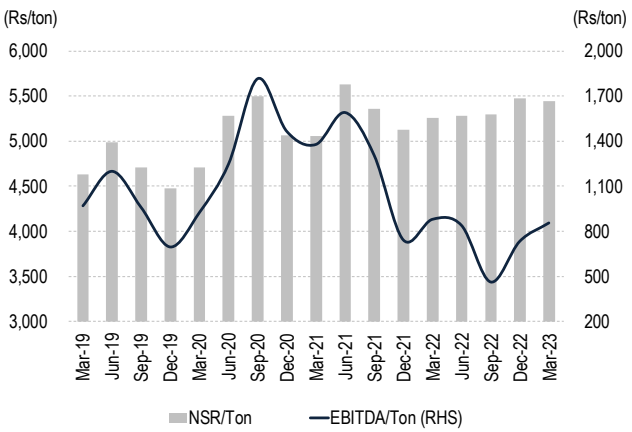
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly per-ton NSR and EBITDA trends



Source: Company

Result Highlights

Fig 7 – Quarterly performance

(Rs m)	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Y/Y %	Q/Q %
Sales	12,167	13,249	16,237	12,051	14,531	15,414	16,977	17,495	17,535	19,907	25,587	50.7%	28.5%
EBITDA	4,017	3,828	4,422	3,404	3,538	2,232	2,837	2,776	1,529	2,666	4,019	41.7%	50.8%
EBITDA margins (%)	33.0	28.9	27.2	28.2	24.3	14.5	16.7	15.9	8.7	13.4	15.7	-100bps	231bps
EBITDA per ton (Rs)	1,815	1,464	1,377	1,590	1,305	742	879	839	462	733	855	-2.7%	16.7%
Interest	265	160	152	243	294	253	334	475	551	608	772	130.8%	26.8%
Depreciation	855	896	958	956	985	992	1,075	1,064	1,216	1,359	1,406	30.7%	3.5%
Other income	486	205	167	296	480	145	214	299	397	274	226	5.8%	-17.5%
PBT	3,383	2,977	3,479	2,501	2,738	1,132	1,641	1,537	160	972	2,067	26.0%	112.6%
Tax	1,026	964	1,336	811	(2,432)	306	400	414	46	299	543	35.7%	82.0%
PAT	2,358	2,014	2,144	1,690	5,171	826	1,241	1,123	115	674	1,524	22.8%	126.2%

Source: Company, Anand Rathi Research

Fig 8 – Per-ton analysis

(Rs / ton)	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Y/Y %	Q/Q %
Realisation	5,498	5,068	5,058	5,629	5,362	5,126	5,261	5,285	5,297	5,473	5,444	3.5%	-0.5%
EBITDA	1,815	1,464	1,377	1,590	1,305	742	879	839	462	733	855	-2.7%	16.7%
Sales volumes (m tons)	2.21	2.61	3.21	2.14	2.71	3.01	3.23	3.31	3.31	3.64	4.70	45.6%	29.2%
Costs													
Raw material	776	742	931	828	754	818	835	865	846	945	952	14.0%	0.8%
Power & Fuel	823	818	771	1,031	1,056	1,380	1,446	1,584	2,013	1,931	1,635	13.1%	-15.3%
Freight	977	1,007	1,074	1,073	1,108	1,111	1,085	1,087	1,052	1,088	1,063	-2.1%	-2.4%
Staff	498	382	295	490	404	351	324	327	339	323	241	-25.7%	-25.5%
Other expenditure	655	575	605	748	698	684	690	650	617	634	521	-24.5%	-17.8%

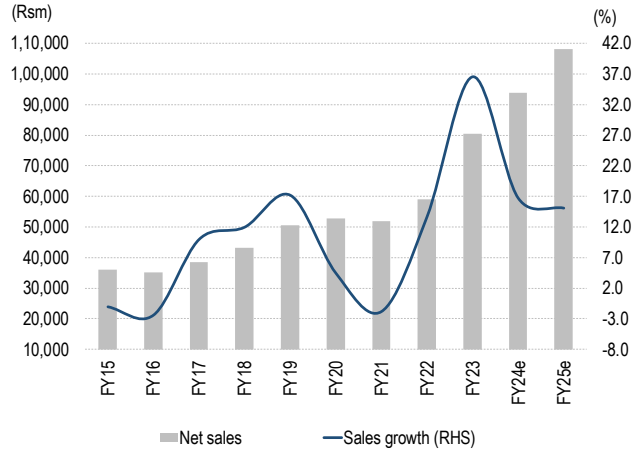
Source: Company, Anand Rathi Research

Other key highlights

Revenue growth

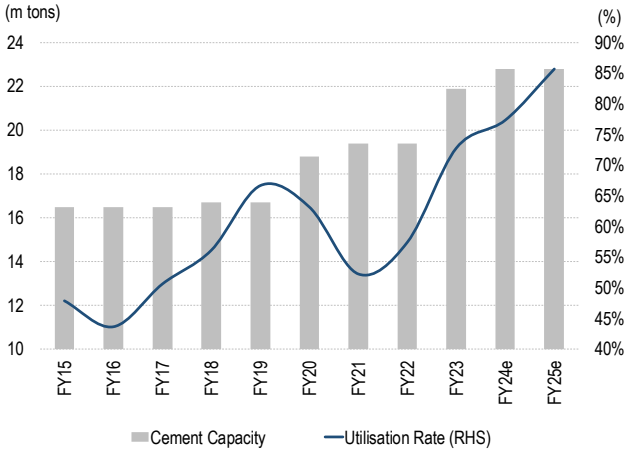
Ramco's Q4 sales volumes grew 45.6% y/y to 4.7m tonnes, aided by rising demand in IHB and infra. Realisation/ton grew 3.5% y/y to Rs5,444. Overall revenue grew 50.7% y/y to Rs25.6bn. To strengthen its brand, the company continues to focus on its strategy of the right product for the right application. In FY23, wind-farms generated 223m units (down 4% y/y).

Fig 9 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 10 – Capacity and Utilisation



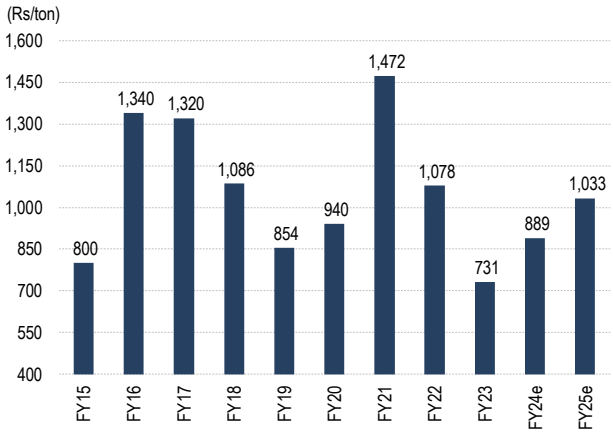
Source: Company, Anand Rathi Research

Operating performance

EBITDA grew 41.7% y/y to ~Rs4bn. EBITDA/ton (blended) slipped ~2.7% y/y to Rs855 (Rs879 a year ago, Rs733 the quarter prior). Power and fuel cost/ton rose 13.1% y/y (because of higher pet-coke and coal costs) and raw material cost/ton by 14% y/y, whereas freight costs fell 2.1 y/y. Other expenditure (including contributions to political parties ~Rs205m) and staff costs rose respectively 10% and 8% y/y on an absolute basis.

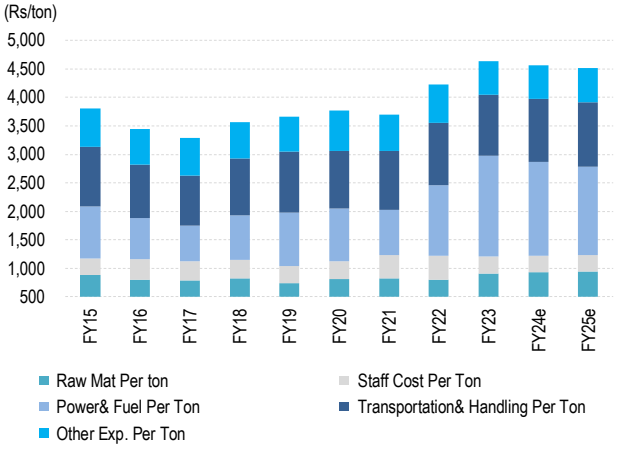
Interest cost grew 130.8% y/y and depreciation, 30.7% y/y on the commissioning of new capacities. PAT grew 22.8% y/y to Rs1524m on the better operating performance.

Fig 11 – EBITDA-per-ton trend



Source: Company, Anand Rathi Research

Fig 12 – Cost-per-ton trend



Source: Company, Anand Rathi Research

Concall Highlights

Operational Highlights

- FY23 cement/clinker production were 14.866m/11.872m tons. Dry mortar product volumes were 200,000 tons in FY23 and 70,000 in Q4 FY23. Cement sales volumes were guided to grow 20% in FY24, backed by greater infra demand.
- The FY23 volume mix was South/East 75:25; Q4 FY23 76:24.
- FY23 capacity utilisation rose to 73% (57% the previous year). Q4 FY23 capacity utilisation was 85% (66% in Q4 FY22).
- The company's strategy of the right cement for the right application is yielding results (it sold 14 types of cement). The share of premium products in overall sales was 25% (South ~28%, East ~16%).
- The share of OPC was 30% (29% the year prior) and of B2B 34% (29%)
- Prices were weak in the South; in the East and North-east they rose.
- Finance costs and depreciation rose on the commissioning of units at JPM Line-3, Kolimigundla, RR Nagar Line III and the dry-mortar plants.
- The 15% busy-season surcharge re-imposed by the Railways wef Oct'22 led to Rs50/ton higher costs in Q4 and H2 FY23.
- The Q4 FY23 rail co-efficient was 12% (15% a year ago, 10% the previous quarter). For FY23 it was 11% (13% in FY22).
- The average lead distance in Q4 FY23 was 310km (326km a year back, 299km the quarter prior). The average lead distance in FY23 was 298km, down 8% y/y from 324km.
- Blended fuel consumption (incl. TPP) per ton of material: $178 in Q4 FY23 (vs $162 in Q4 FY22). Spot fuel prices were $125/ton, savings expected from Q2.
- Blended fuel cost per Kcal: Rs2.21in Q4 FY23 (vs Rs1.88 a yar back).
- The Q4 FY23 fuel mix was petcoke-coal-alternative fuel 56:31:13 (52:33:15 a year back). For FY23, it was 55:32:13 (vs 40:40:20 in FY22).
- The Q4 FY23 thermal-green-grid power mix was 50:23:27 (66:16:18 a year back). For FY23, it was 56:22:22 (vs 69:15:16 in FY22).
- Other expenditure includes contribution to political parties amounting to Rs205m.

Renewable energy capacity

- At 31st Mar'23, thermal power, WHRS and wind power capacities were respectively 175MW, 39MW and 166MW (including ~40MW from subsidiaries).
- Captive use of wind power increased from 17MW in FY22 to 33MW in FY23.
- In FY23, 19% of the wind power capacity under 'Sale to Grid' was changed to 'captive use'. Till FY23, the company had changed 60% wind power to captive consumption; another 40% will be changed in some time.

- The share of green energy increased to 22% in FY23 vs 15% in FY22. The company aims to improve this by another 10% in FY24.

Debt

- Gross and net debt at end-Mar were: Rs44.87bn (Rs38.25bn long-term, Rs4.78bn short-term, Rs1.84bn soft loan) and Rs43.51bn. The average cost of borrowing was 6.35% (5.22% in FY22).
- Peak net debt/EBITDA was guided to be 2x-2.5x.

Expansion and capex

- The Kurnool Integrated Unit: Clinker capacity of 2.5m tons and cement capacity of 1.5m tons commenced commercial production from 16th Jun'22 and 23rd Sep'22 respectively. Capacity utilisation in Q4 FY23 was ~83%.
- WHRS capacity of 8MW at Kurnool was commissioned in FY23, the balance 4MW will be commissioned in May'023. TPP of 18MW and a railway siding will be commissioned in FY24
- Expansion of the dry mortar plant: The company is putting up four dry mortar units at Rs1.6bn. One unit, in TN, started production in Dec'22; another will be commissioned in Feb'23. The AP and Odisha units will be commissioned in FY24. At full capacity, each unit can generate Rs0.8bn-1bn revenue.
- RRN Line III (clinker ~1.04m tons, cement ~1m tons) was commissioned in Mar'23 taking overall cement and clinker capacities at RR Nagar to respectively 3m tons and 2.2m tons.
- The 0.9m-ton Odisha Grinding Unit Line II at Rs1.3bn capex is expected to be commissioned in Q3 FY24.
- In the next phase of expansion, it will set up line II at its Kurnool IU at Rs8bn-9bn (cement 2m-3m tons, clinker 2m-2.5m tons). It has received the necessary approvals to acquire land in Karnataka where it plans to set up a 1m-ton GU at Rs3bn-3.5bn capex. It has limestone reserves for 30-40 years.
- The company incurred Rs3.9bn capex in Q4 FY23 and Rs17.65bn in FY23 (Rs18.16bn in FY22) and talked of spending Rs8bn on the on-going expansion in FY24 (incl. Rs2bn on maintenance) To fund the capex and the de-levering exercise, it plans to sell non-core assets (land ~Rs3-4bn) and release working capital (~Rs1-2bn).

Valuations

The capacity ramp-up leading to higher utilisation and cost-efficient capex helped Ramco report a strong Q4. With ~22m tpa now, further capex for the next expansion phase would be much lower, resulting in higher return ratios. The greater focus on operating efficiency and on raising the share of green energy are positives. While cost-saving levers are in place to improve operating efficiency, land monetisation is on the cards to fund expansions and de-levering. The expected upswing in infra demand along with the capacity ramp-up would boost volume growth. We retain our Buy rating, at a higher TP of Rs1,047 (earlier Rs838), 14x FY25e EV/EBITDA.

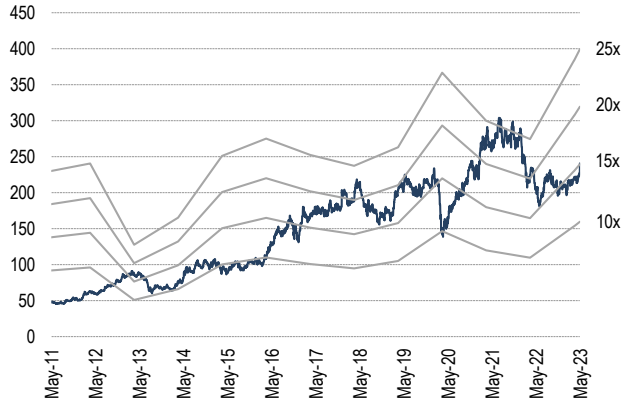
Change in estimates

Fig 14 – Change in estimates

(Rs m)	Old		New		Variance (%)	
	FY24e	FY25e	FY24e	FY25e	FY24	FY25
Sales	86,052	96,398	93,984	108,154	*9.2*	*12.2*
EBITDA	12,663	16,042	15,360	20,160	*21.3*	*25.7*
PAT	4,178	6,627	5,714	9,058	*36.8*	*36.7*

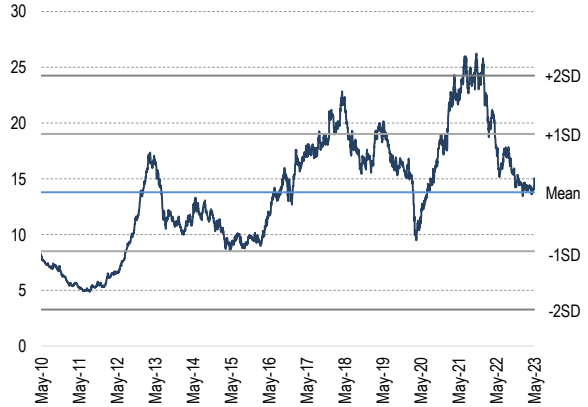
Source: Anand Rathi Research

Fig 15 – EV / EBITDA band, one-year-forward



Source: Company, Anand Rathi Research

Fig 16 – EV / EBITDA: Standard deviation, one-year-forward



Source: Company, Anand Rathi Research

Risks

- Demand slowdown.
- Profitability curtailed by rising pet-coke and diesel prices.

Fig 17 – Peer comparison – valuations

	CMP	P/E (x)		EV / EBITDA (x)		EV / ton ($)	
	(Rs)	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e
Ramco Cement	**843**	**34.9**	**22**	**15.8**	**11.6**	**129**	**124**
Dalmia Bharat	2,054	55.3	33.7	14.1	10.7	85	83
Birla Corp.	989	14.9	11.5	8.1	6.8	64	61
India Cement	192	NA	29.1	21.5	12.4	74	74
JK Cement	3,020	26	20.5	14.9	12.1	180	161
JK Lakshmi	780	19.6	15.1	10.1	7.7	89	69
Orient Cement	123	13.6	11.5	6.7	6.1	47	52
Heidelberg Cement	170	20.9	15.6	10	7.6	60	58
Prism Johnson	117	60	23.6	12.4	8.8	81	76
Star Cement	123	21.8	22	11.8	10	91	73
Sagar Cement	200	53.8	12	10.2	6.2	48	41
NCL Indus	194	8.5	7.7	5	4.2	38	33
Mangalam Cement	279	7.8	5.8	4.2	3.1	30	25
Deccan Cement	469	8.9	7.9	6.1	5.8	46	39

Source: Company, Anand Rathi Research

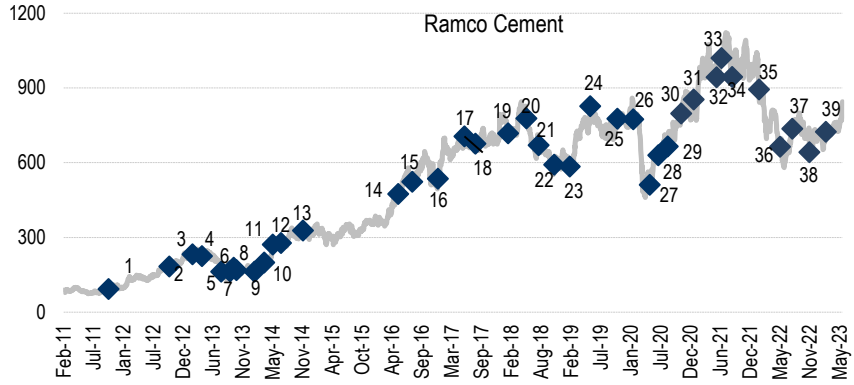
Appendix

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Rating and Target Price History (as of 21 May 2023)



	Date	Rating	TP (Rs)	Share Price (Rs)
24	27-May-19	Buy	921	797
25	31-Oct-19	Buy	976	782
26	31-Jan-20	Buy	1,004	790
27	4-May-20	Buy	683	566
28	21-Jun-20	Buy	748	645
29	17-Aug-20	Buy	777	675
30	3-Nov-20	Buy	940	815
31	4-Feb-21	Buy	1,038	871
32	25-May-21	Buy	1,150	960
33	28-Jul-21	Buy	1,205	1,041
34	26-Oct-21	Buy	1,226	1,014
35	26-Jan-22	Buy	1,033	860
36	25-May-22	Buy	784	645
37	2-Aug-22	Buy	848	737
38	11-Nov-22	Buy	752	646
39	8-Feb-23	Buy	838	730

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Mid Caps (101st-250th company)	>20%	0-20%	<0%
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