

The Ramco Cements

Estimate change



TP change



Rating change



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Bloomberg	TRCL IN
Equity Shares (m)	236
M.Cap.(INRb)/(USDb)	151.9 / 1.9
52-Week Range (INR)	883 / 457
1, 6, 12 Rel. Per (%)	4/1/-7
12M Avg Val (INR M)	345

Financial Snapshot (INR b)

Y/E Mar	2020	2021E	2022E
Sales	53.4	47.0	60.6
EBITDA	11.1	10.5	14.0
Adj. PAT	6.0	4.7	6.5
EBITDA Margin (%)	20.8	22.4	23.1
Adj. EPS (INR)	25.5	20.0	27.6
EPS Gr. (%)	18.1	-21.6	37.9
BV/Sh. (INR)	209	226	248

Ratios

Net D:E	0.6	0.6	0.5
RoE (%)	12.8	9.2	11.6
RoCE (%)	9.4	6.6	8.8
Payout (%)	11.4	14.5	19.0

Valuations

P/E (x)	25.3	32.2	23.4
P/BV (x)	3.1	2.9	2.6
EV/EBITDA(x)	14.7	16.4	12.9
EV/ton (USD)	109	115	114
Div. Yield (%)	0.4	0.4	0.7
FCF Yield (%)	-8.4	-0.3	3.1

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	42.7	42.7	42.8
DII	27.9	25.3	26.4
FII	8.9	11.7	11.5
Others	20.6	20.3	19.3

FII Includes depository receipts

CMP: INR645
TP: INR595 (-8%)
Neutral

Production discipline driving pricing strength

Pricing in southern region surprises positively; capex delayed

- The Ramco Cements (TRCL)'s 4QFY20 results surprised positively on better-than-expected realization. While cement EBITDA was down 14% YoY, it was 17% above our estimate as realization stood 4% above estimate.
- We raise our FY21/FY22 EPS estimates and target price by ~5% to factor better pricing in the southern region. The commissioning timelines of ongoing expansions have also been pushed ahead by three to nine months, which has lowered FY21 capex. The stock is currently trading at 12.9x FY22 EV/EBITDA and is pricing in the volume upside, in our view. Hence, we maintain Neutral.

Beat led by better-than-expected volumes and realization

- Reported revenue/EBITDA/PAT at INR13.9b/INR2.8b/INR1.5b was down 9%/13%/12% YoY, but came in 7%/17%/39% above our estimates.
- Sales volumes declined 11% YoY to 2.93mt (+3% QoQ) (our est.: 2.85mt).
- Cement realization rose 5.8% QoQ to INR4,725/t (+2% YoY) and was 4% above our est. of INR4,541/t.
- Cost/t (incl. windmills) at INR3,788/t (+3% YoY, +0% QoQ) also came in 2% higher than our est. of INR3717/t as freight cost and marketing spends were higher.
- EBITDA/t declined 3% YoY to INR955/t (+34% QoQ), but stood 14% above our est. of INR845/t, driven by a beat on realization.
- The Wind Power segment reported EBITDA loss of INR8mn v/s loss of INR25mn in 4QFY19 and loss of INR35mn in 3QFY20 due to lower generation seasonally.

Highlights from management commentary

- TRCL expects slowdown in the Builder and Commercial segments, and remains cautious about the demand outlook. The company is well-positioned in the rural markets and expects to reap the benefit of demand growth as rural markets look more promising than urban markets.
- Advertisement and sales promotions would be cut sharply in FY21 (had been increased 123% YoY in FY20) to save costs.
- Operating costs continue to remain under control in light of benign fuel prices, such as petcoke and coal.
- **Capacity expansion update:** The grinding unit in Vizag (1.05mt) was commissioned in Mar'20, and the Odisha grinding unit would be commissioned by Aug'20. The commissioning of the Jayanthipuram 1.5mtpa clinker capacity has been pushed ahead by nine months to Mar'21. The integrated plant in Kurnool should get commissioned by Mar'21, as guided earlier.
- FY21 capex would be at ~INR8b, with the balance planned INR5.8b (out of INR13.8b remaining) being spent in FY22.
- Gross debt stood at INR30.24b as of Mar'20, with average cost at 7.3% p.a.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- TRCL has been gaining market share in its operating regions of south/east, driven by aggressive marketing and new product launches. We expect volumes to grow above industry at a 4% CAGR in FY20-22E, led by expansions.
- The expansions would, however, result in leverage rising to 3x net debt / EBITDA in FY21E (from 1.5x in FY19).
- The stock trades at 12.8x FY22E EV/EBITDA, a 10% premium to its 10-year average and a significant premium to peers. On an asset valuation basis, it trades at USD114/t. We value the stock at 12x FY22E EV/EBITDA to arrive at TP of INR595. Maintain **Neutral**.

Quarterly Performance

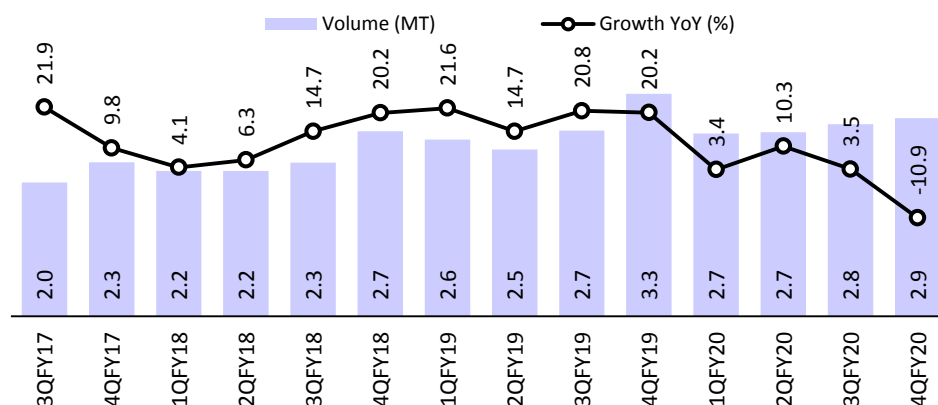
Quarterly Performance											(INR m)	
Y/E March	FY19				FY20				FY19	FY20	FY20 4QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales Dispatches (m ton)	2.61	2.47	2.75	3.29	2.70	2.72	2.84	2.93	11.12	11.20	2.85	3
YoY Change (%)	21.6	14.7	20.8	20.2	3.4	10.3	3.5	-10.9	19.5	0.7	-13.3	
Realization (INR/ton)	4,537	4,622	4,392	4,640	4,989	4,708	4,475	4,725	4,549	4,718	4,541	4
YoY Change (%)	-1.5	-3.4	-4.7	1.5	10.0	1.8	1.9	1.8	-1.9	3.7	-2.1	
QoQ Change (%)	-0.8	1.9	-5.0	5.6	7.5	-5.6	-4.9	5.6			1.5	
Net Sales	12,046	11,806	12,074	15,293	13,698	13,129	12,746	13,899	51,220	53,435	12,986	7
YoY Change (%)	18.5	11.0	14.6	22.2	13.7	11.2	5.6	-9.1	16.8	4.3	-15.1	
EBITDA	2,350	2,442	2,110	3,220	3,452	2,915	1,995	2,793	10,123	11,117	2,381	17
Margins (%)	19.5	20.7	17.5	21.1	25.2	22.2	15.6	20.1	19.8	20.8	18.3	
Depreciation	735	728	756	767	758	765	797	833	2,985	3,153	816	
Interest	114	131	135	128	135	147	215	216	509	714	210	
Other Income	202	88	96	142	223	129	119	114	527	622	100	
PBT before EO expense	1,703	1,671	1,315	2,467	2,782	2,132	1,101	1,858	7,156	7,872	1,455	28
Extra-Ord expense	0	0	0	30	0	0	0	0	30	0	0	
PBT	1,703	1,671	1,315	2,437	2,782	2,132	1,101	1,858	7,126	7,872	1,455	28
Tax	453	527	304	783	862	450	153	396	2,067	1,861	402	
Rate (%)	26.6	31.5	23.1	32.1	31.0	21.1	13.9	21.3	29.0	23.6	27.6	
Reported PAT	1,250	1,145	1,011	1,654	1,920	1,682	948	1,462	5,059	6,011	1,053	39
Adj PAT	1,250	1,145	1,011	1,684	1,920	1,682	948	1,462	5,089	6,011	1,053	39
YoY Change (%)	-19.8	-28.8	-8.4	22.5	53.6	46.9	-6.2	-13.2	-9.8	18.1	-37.5	
Margins (%)	10.4	9.7	8.4	11.0	14.0	12.8	7.4	10.5	9.9	11.2	8.1	

Per ton analysis (incl Windmills)

Per ton analysis (incl Windmills)												(INR t)
Net realization	4,608	4,782	4,395	4,648	5,068	4,820	4,482	4,740	4,604	4,770	4,552	4.1
YoY (%)	-2.5	-3.2	-5.1	1.6	10.0	0.8	2.0	2.0	-2.2	3.6	-2.1	
RM Cost	692	751	729	853	743	733	834	805	761	780	823	-2
Employee Expenses	314	340	296	250	327	362	339	288	296	329	345	-17
Power, Oil & Fuel	980	956	987	893	984	996	911	868	950	938	877	-1
Freight and Handling Outward	1,123	1,095	1,015	1,050	1,040	990	996	1,037	1,068	1,016	991	5
Other Expenses	601	651	600	624	696	668	700	790	619	715	681	16
Total Expenses	3,709	3,793	3,627	3,670	3,791	3,750	3,780	3,788	3,694	3,777	3,717	2
EBITDA	899	989	768	979	1,277	1,070	701	952	910	992	835	14
Cement EBITDA (ex Windmills)	846	851	784	987	1,217	977	714	955	873	959	845	13

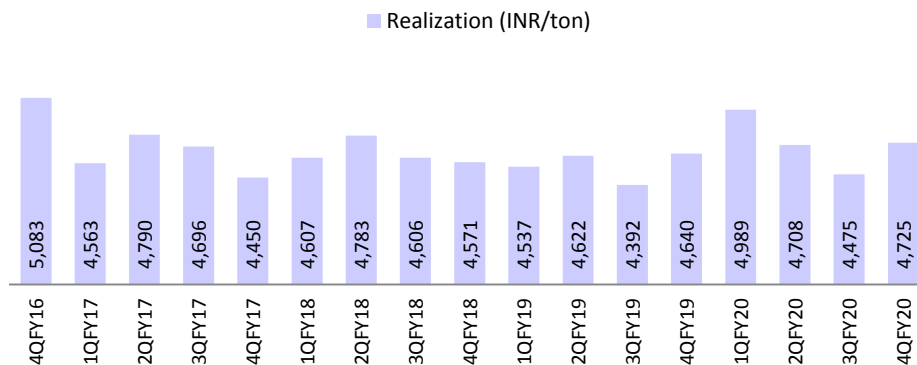
Key exhibits

Exhibit 1: Volumes down by 10.9% YoY in 4QFY20



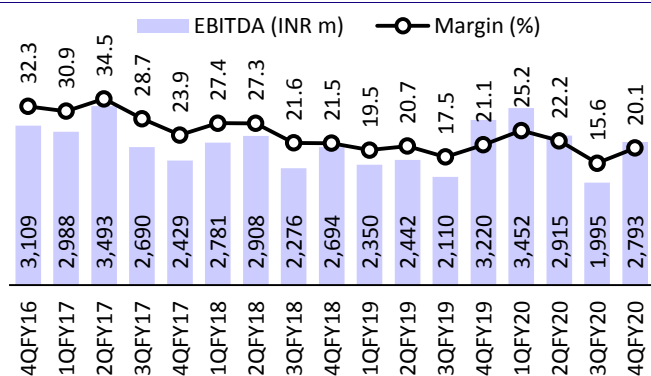
Source: MOFSL, Company

Exhibit 2: Realization up 5.6% QoQ and 1.8% YoY



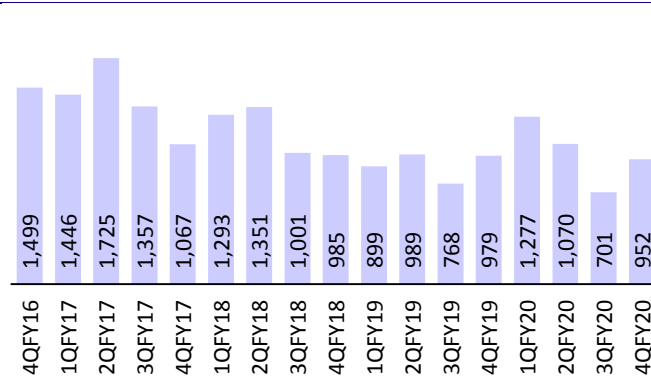
Source: MOFSL, Company

Exhibit 3: Margins contracted 1.0pp YoY



Source: MOFSL, Company

Exhibit 4: Blended EBITDA/t up 35.8% QoQ



Source: MOFSL, Company

Exhibit 5: Key performance indicators – per ton analysis

INR/Ton	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)
Net realization	4,740	4,648	2	4,482	6
RM Cost	805	853	-6	834	-3
Employee Expenses	288	250	15	339	-15
Power, Oil & Fuel	868	893	-3	911	-5
Freight and Handling Outward	1,037	1,050	-1	996	4
Other Expenses	790	624	27	700	13
Total Expenses	3,788	3,670	3	3,780	0
EBITDA	952	979	-3	701	36
Cement EBITDA (ex-Windmills)	955	987	-3	714	34

Source: MOFSL, Company

Valuation and view

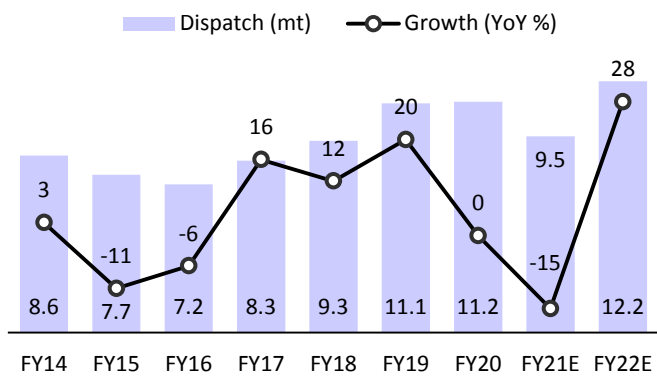
Volume growth to remain ahead of industry: The Ramco Cements (TRCL) sells ~70% of its volumes in southern India, a region where volumes declined in FY20. However, TRCL has been gaining market share in the region, driven by its aggressive marketing strategy and new product launches in niche segments. It is also expanding its clinker capacity by 35% by setting up two new clinker plants in the region (Andhra Pradesh), 1.5mt at Jayanthipuram and 2.3mt at Kurnool, which should get commissioned in FY21. The new clinker capacity would also serve the eastern India market, for which TRCL is setting up 3mt grinding capacities (1mt already commissioned) that would support market share gains as well. We estimate TRCL's volumes to grow at a 4% CAGR over FY20–22E v/s nil growth for the industry.

Pricing outlook in eastern not promising: TRCL's commissioning of new cement grinding units in the eastern region would help the company strengthen its presence in the region. However, in the medium term, we see pricing gains in eastern to be unsustainable owing to significant capacity additions (nearly 30% expansion over the next two years).

Maintain Neutral: The stock trades at 12.8x FY22E EV/EBITDA, a 10% premium to its 10-year average and significant premium to peers. On an asset valuation basis, it trades at USD114/t. We value the stock at 12x FY22E EV/EBITDA to arrive at TP of INR595. We expect return ratios to weaken over the next two years. Expansion would also result in leverage growth to 3x net debt / EBITDA in FY21E (from 1.5x in FY19). Maintain **Neutral**.

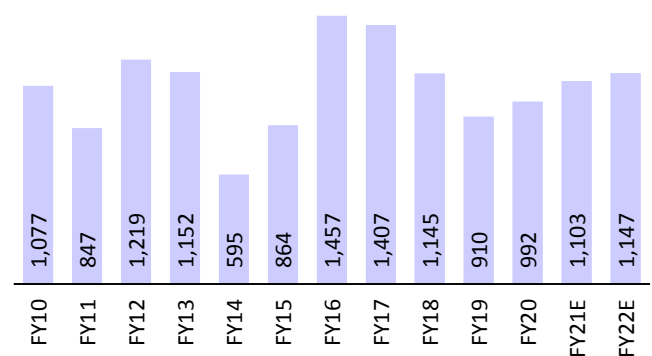
Story in Charts

Exhibit 6: Volumes estimated at 4.3% CAGR in FY20–22E



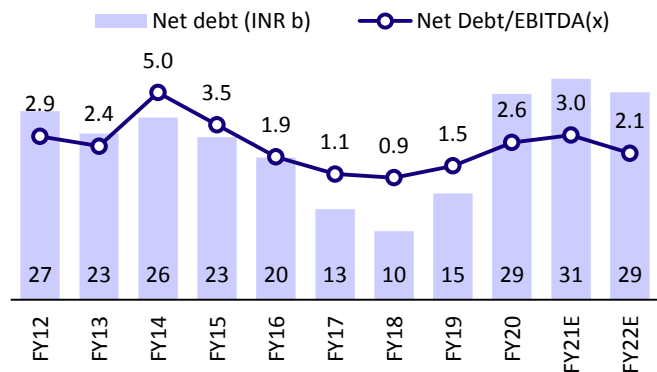
Source: MOFSL, Company

Exhibit 7: EBITDA/ton trend (INR/t)



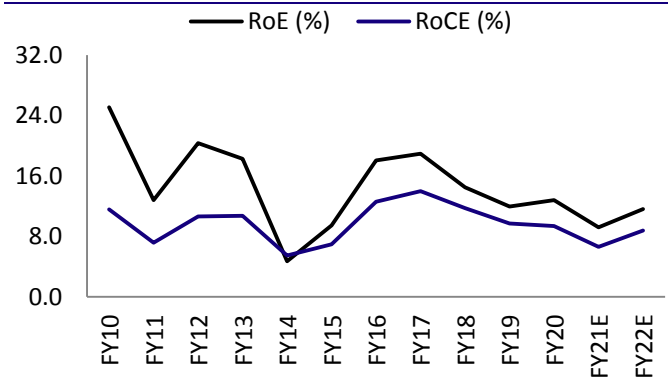
Source: MOFSL, Company

Exhibit 8: Net debt has increased on high capex



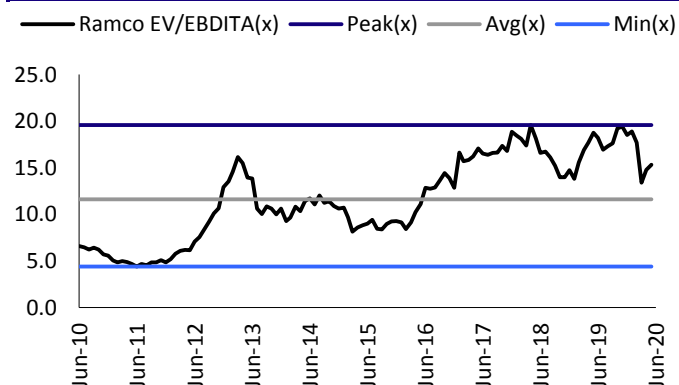
Source: MOFSL, Company

Exhibit 9: Trend in RoE and RoCE



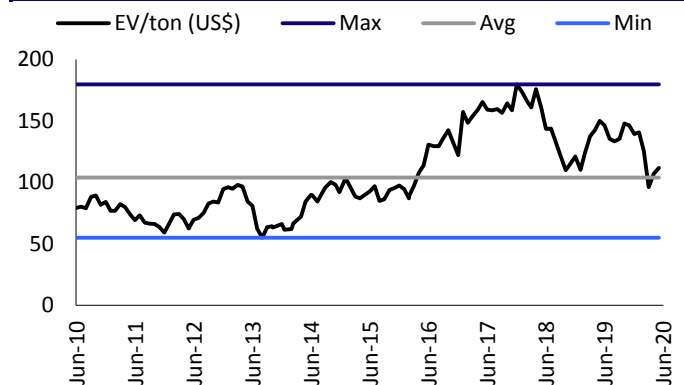
Source: MOFSL, Company

Exhibit 10: TRCL EV/EBITDA trend



Source: MOFSL, Company

Exhibit 11: TRCL EV/ton trend



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	35,939	35,507	39,292	43,851	51,220	53,435	46,975	60,643
Change (%)	-1.1	-1.2	10.7	11.6	16.8	4.3	-12.1	29.1
EBITDA	6,622	10,490	11,743	10,658	10,123	11,117	10,506	13,983
Margin (%)	18.4	29.5	29.9	24.3	19.8	20.8	22.4	23.1
Depreciation	2,499	3,048	2,845	2,922	2,985	3,153	3,748	4,376
EBIT	4,123	7,442	8,898	7,736	7,138	7,964	6,759	9,607
Int. and Finance Charges	1,938	1,819	1,035	592	509	714	1,001	1,579
Other Income - Rec.	1,379	1,110	639	579	527	622	526	635
PBT bef. EO Exp.	3,564	6,734	8,502	7,723	7,156	7,872	6,283	8,663
EO Expense/(Income)	0	-238	-20	87	30	0	0	0
PBT after EO Exp.	3,564	6,972	8,522	7,636	7,126	7,872	6,283	8,663
Current Tax	88	1,498	1,870	1,859	1,894	1,393	1,571	2,166
Deferred Tax	1,053	53	159	220	110	469	0	0
Tax Rate (%)	32.0	22.2	23.8	27.2	28.1	23.6	25.0	25.0
Reported PAT	2,424	5,422	6,493	5,557	5,122	6,011	4,713	6,497
PAT Adj for EO items	2,424	5,184	6,473	5,644	5,152	6,011	4,713	6,497
Change (%)	111.3	113.9	24.9	-12.8	-8.7	18.1	-21.6	37.9
Margin (%)	6.7	14.6	16.5	12.9	10.1	11.2	10.0	10.7

Balance Sheet							(INR m)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Equity Share Capital	238	238	238	236	236	236	236	236
Total Reserves	26,214	30,697	37,177	40,186	44,366	48,950	52,978	58,244
Net Worth	26,452	30,935	37,415	40,422	44,601	49,186	53,214	58,479
Deferred Liabilities	8,271	7,155	7,281	7,597	8,704	9,172	9,172	9,172
Total Loans	27,119	21,230	14,248	11,132	16,187	30,244	32,324	30,824
Capital Employed	61,841	59,320	58,945	59,150	69,493	88,602	94,710	98,476
Gross Block	72,350	75,444	78,345	81,976	85,537	95,403	112,803	130,303
Less: Accum. Deprn.	23,920	26,348	28,693	31,121	34,107	37,259	41,007	45,383
Net Fixed Assets	48,429	49,097	49,652	50,854	51,431	58,144	71,796	84,920
Capital WIP	2,575	1,383	974	1,500	8,308	18,143	10,362	1,422
Total Investments	3,558	3,716	3,890	3,968	4,294	4,275	4,275	4,275
Curr. Assets, Loans&Adv.	15,763	14,746	15,573	14,581	17,049	19,908	19,123	21,908
Inventory	5,206	5,490	5,754	5,599	5,597	6,453	6,435	7,323
Account Receivables	3,802	4,721	5,549	4,423	4,900	5,269	5,405	5,815
Cash and Bank Balance	618	908	1,181	1,194	928	914	889	1,294
Loans and Advances	6,136	3,627	3,089	3,365	5,625	7,273	6,394	7,477
Curr. Liability & Prov.	8,861	9,622	11,144	11,754	11,590	11,868	10,846	14,050
Account Payables	7,238	9,238	10,643	11,183	11,180	11,337	10,296	13,292
Provisions	1,623	384	501	571	410	531	550	758
Net Current Assets	6,901	5,124	4,429	2,827	5,460	8,040	8,277	7,859
Appl. of Funds	61,841	59,320	58,945	59,150	69,492	88,602	94,710	98,476

Financials and valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
Consol EPS	10.2	21.8	27.2	24.0	21.6	25.5	20.0	27.6
Cash EPS	20.7	34.6	39.1	36.4	34.3	38.9	35.9	46.2
BV/Share	111.1	129.9	157.1	171.6	189.3	208.8	225.9	248.2
DPS	1.5	3.0	3.0	3.0	3.0	2.5	2.5	4.5
Payout (%)	17.8	15.9	10.9	12.7	16.8	11.4	14.5	19.0
Valuation (x)								
P/E				26.9	29.9	25.3	32.2	23.4
Cash P/E				17.7	18.8	16.6	18.0	14.0
P/BV				3.8	3.4	3.1	2.9	2.6
EV/Sales				3.7	3.1	3.0	3.7	3.0
EV/EBITDA				15.0	15.7	14.7	16.4	12.9
EV/Ton (US\$)				126	125	109	115	114
Dividend Yield (%)				0.5	0.5	0.4	0.4	0.7
Return Ratios (%)								
RoIC	5.1	10.7	12.8	10.7	9.3	10.0	7.0	8.4
RoE	9.5	18.1	18.9	14.5	12.0	12.8	9.2	11.6
RoCE	7.0	12.6	14.0	11.7	9.7	9.4	6.6	8.8
Working Capital Ratios								
Asset Turnover (x)	0.6	0.6	0.7	0.7	0.7	0.6	0.5	0.6
Inventory (Days)	52.9	56.4	53.5	46.6	39.9	44.1	50.0	44.1
Debtor (Days)	34	42	45	36	35	36	42	35
Creditor (Days)	74	95	99	93	80	77	80	80
Leverage Ratio (x)								
Current Ratio	1.8	1.5	1.4	1.2	1.5	1.7	1.8	1.6
Debt/Equity	1.0	0.7	0.4	0.3	0.4	0.6	0.6	0.5

Cash Flow Statement

(INR m)

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
OP/(Loss) before Tax	3,564	6,734	8,502	7,847	7,156	7,872	6,283	8,663
Depreciation	2,723	3,248	2,845	2,922	2,985	3,153	3,748	4,376
Interest & Finance Charges	1,847	1,705	774	436	404	714	1,001	1,579
Direct Taxes Paid	-687	-1,483	-1,894	-1,713	-1,584	-1,861	-1,571	-2,166
(Inc)/Dec in WC	2,126	930	848	1,564	-929	-2,593	-262	823
CF from Operations	9,573	11,134	11,073	11,055	8,032	7,284	9,199	13,275
Others	-13	-283	-19	74	-127	-273	0	0
CF from Operating incl EO	9,561	10,851	11,054	11,129	7,904	7,011	9,199	13,275
(Inc)/Dec in FA	-4,386	-2,771	-3,043	-4,942	-12,018	-19,701	-9,619	-8,560
Free Cash Flow	5,175	8,080	8,011	6,187	-4,114	-12,690	-420	4,715
(Pur)/Sale of Investments	7	0	0	0	9	19	0	0
Others	-438	1,637	-1,151	1,698	-2,588	0	0	0
CF from Investments	-4,817	-1,134	-4,194	-3,244	-14,597	-19,683	-9,619	-8,560
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	-1,984	-6,517	-5,496	-4,682	7,755	14,057	2,080	-1,500
Interest Paid	-2,310	-1,621	-1,090	-658	-476	-714	-1,001	-1,579
Dividend Paid	-279	-1,291	0	-852	-853	-684	-684	-1,232
Others	0	0	0	-1,681	0	0	0	0
CF from Fin. Activity	-4,573	-9,428	-6,586	-7,872	6,426	12,659	394	-4,311
Inc/Dec of Cash	171	289	274	13	-266	-13	-25	405
Opening Balance	447	618	907	1,181	1,194	927	915	889
Closing Balance	618	907	1181	1194	927	915	889	1,294

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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