The Ramco Cement Ltd

22 June 2020

Reuters: TRCE.NS; Bloomberg: TRCL:IN

4QFY20 Result Update

Momentary better demand and pricing in East bode well

The Ramco Cement Ltd (TRCL) has reported good set of numbers for 4QFY20, in line with other peers in the sector. Revenue at Rs13.9bn declined by 9.3% YoY as volume declined by 10.9% YoY whereas realization improved by 1.8% YoY (5.5% QoQ). Operating cost/mt increased by 3.2% YoY due to higher raw material, employee and other expenses, which was offset by lower power & fuel and freight costs. As a result, EBITDA/mt came in at Rs952, which was down by 3.6% YoY and up by 33.5% QoQ and much ahead of our estimate. Adj. PAT at Rs1.46bn declined by 11.2% YoY. For FY20, the company reported 0.7% increase in volume and 4.3% increase in net revenue. EBITDA/mt came in at Rs1,015 in FY20 compared to Rs932 in FY19. Given the better demand and pricing trends in the eastern markets at the moment, we believe, pricing trends will be stronger for TRCL in FY21 compared to our expectations earlier. We have tweaked our estimates for FY21 and FY22 and our current EBITDA estimates are 8.2% and 2.4% higher than earlier. We have assumed lower volume in FY21 and marginally higher pricing. For FY22, pricing growth assumption has been toned down as we now expect the pricing to be better in FY21 itself. We have maintained our valuation multiple for the stock and our revised target price now stands at Rs636. As the stock has moved up in recent past, we are changing our rating from Buy to Accumulate.

Better rural demand in East to aid earnings in near term: TRCL's incremental volume growth is likely to happen in eastern markets where we earlier had negative outlook for demand and pricing. However, given the uptick in rural demand in the recent past, eastern markets have done better which is likely to aid earnings. The company expects demand to return to normal level as and when the lockdown restrictions are lifted gradually. Based on this demand, the capacity utilization is expected to improve and eventually stabilize. Despite the positive commentary by the management in the press release, we believe that demand trend will be visible only after the monsoon in 2HFY21, and hence we are still skeptical about this demand recovery.

Capex program to continue: During March 2020, the company completed the expansion of grinding unit in Vizag, Andhra Pradesh from 0.95mn mt to 2mn mt. New grinding unit in Haridaspur, Odisha with a capacity of 1mn mt is expected to be commissioned by August 2020. Expansion of clinkering capacity at Jayanthipuram, Andhra Pradesh from 3mn mt to 4.5mn mt along with a WHRS capacity of 27MW is expected by March 2021. A new integrated cement plant in Kurnool, Andhra Pradesh with a clinker and cement capacity of 2.25mn mt and 1mn mt, respectively is expected to be commissioned by March 2021. The plant will have railway siding, thermal power plant of 18MW and WHRS of 12.15MW. The total cost of this capacity expansion is Rs33bn, out of which Rs19.2bn was spent in FY20 and the balance will be spent in FY21.

Revise TP to Rs636 and rating to Accumulate: We have changed our volume and pricing assumptions to factor in the recent changes in the demand and pricing environment. Our revised target price now stands at Rs636 and revised rating is Accumulate.

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)
Net Sales	**15,324**	**12,780**	**13,899**	***(9.3)***	***8.8***
Operating Expenses	12,073	10,751	11,107	*(8.0)*	*3.3*
EBITDA	**3,251**	**2,029**	**2,792**	***(14.1)***	***37.6***
EBITDA Margin (%)	***21.2%***	***15.9%***	***20.1%***	***(113)bps***	***421bps***
Other Income	111	85	114	*2.9*	*34.6*
Interest Costs	128	215	216	*68.4*	*0.5*
Depreciation	767	797	833	*8.6*	*4.5*
PBT	2,467	1,101	1,857	*(24.7)*	*68.6*
Tax	813	153	396	*(51.3)*	*158.0*
Reported PAT	**1,654**	**948**	**1,462**	***(11.6)***	***54.2***
Exceptional Items	-	-	-	*NA*	*NA*
Adjusted PAT	**1,654**	**948**	**1,462**	***(11.6)***	***54.2***
NPM (%)	***10.8%***	***7.4%***	***10.5%***	***(27)bps***	***310bps***
EPS (Rs.)	**7.0**	**4.0**	**6.2**	***(11.6)***	***54.2***

Source: Company, Nirmal Bang Institutional Equities Research

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ACCUMULATE

Sector: Cement

CMP: Rs645

Target Price: Rs636

Downside: (1)%

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Key Data

Current Shares O/S (man)	235.6
Mkt Cap (Rsbn/US$bn)	151.9/2.0
52 Wk H / L (Rs)	884/455
Daily Vol. (3M NSE Avg.)	860,658

Price Performance (%)

	1 M	6 M	1 Yr
The Ramco Cement	14.8	(15.0)	(19.5)
Nifty Index	13.3	(16.5)	(12.6)

Source: Bloomberg

Exhibit 1: Detailed financials (Standalone)

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Net Sales	**15,324**	**12,780**	**13,899**	***(9.3)***	***8.8***	**51,463**	**53,684**	***4.3***
Expenditure								
Chg. in stock	324	42	(254)	*(178.5)*	*(702.8)*	183	(474)	*(359.0)*
RM consumption	1,618	2,329	2,616	*61.7*	*12.3*	8,286	9,212	*11.2*
Purchase of traded goods	-	-	-	*0.0*	*0.0*	-	-	*0.0*
Employee cost	823	966	846	*2.7*	*(12.4)*	3,295	3,682	*11.7*
Freight, packing etc.	4,317	2,831	3,039	*(29.6)*	*7.3*	11,880	11,379	*(4.2)*
Power and fuel	2,938	2,592	2,544	*(13.4)*	*(1.9)*	10,573	10,509	*(0.6)*
Other exp	2,053	1,992	2,317	*12.8*	*16.3*	6,881	8,011	*16.4*
Operating Expenses	12,073	10,751	11,107	*(8.0)*	*3.3*	41,097	42,318	*3.0*
EBITDA	**3,251**	**2,029**	**2,792**	***(14.1)***	***37.6***	**10,365**	**11,366**	***9.7***
EBITDA Margin (%)	***21.2%***	***15.9%***	***20.1%***	***(113)bps***	***421bps***	***20.1%***	***21.2%***	***103bps***
Other Income	111	85	114	*2.9*	*34.6*	284	372	*30.8*
Interest Costs	128	215	216	*68.4*	*0.5*	509	714	*40.3*
Depreciation	767	797	833	*8.6*	*4.5*	2,985	3,153	*5.6*
PBT	2,467	1,101	1,857	*(24.7)*	*68.6*	7,156	7,872	*10.0*
Tax	813	153	396	*(51.3)*	*158.0*	2,097	1861.2	*(100.0)*
Reported PAT	**1,654**	**948**	**1,462**	***(11.6)***	***54.2***	**5,059**	**6,011**	***18.8***
Exceptional Items	0	0	0	-	-			
Adjusted PAT	**1,654**	**948**	**1,462**	***(11.6)***	***54.2***	**5,059**	**6,011**	***18.8***
NPM (%)	***10.8%***	***7.4%***	***10.5%***	***(27)bps***	***310bps***	***9.8%***	***11.2%***	***137bps***
EPS (Rs.)	***7.0***	***4.0***	***6.2***	***(11.6)***	***54.2***	***21.5***	***25.5***	***18.8***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Operational data

Operational Data	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Volume (mn mt)	3.29	2.84	2.93	*(10.9)*	*3.1*	11.12	11.20	*0.7*
Cement Realization (Rs/mt)	4,658	4,494	4,740	*1.8*	*5.5*	4,626	4,792	*3.6*
Operating Costs (Rs/mt)	3,670	3,780	3,788	*3.2*	*0.2*	3,694	3,777	*2.2*
EBITDA (Rs/mt)	**988**	**713**	**952**	***(3.6)***	***33.5***	**932**	**1,015**	***8.9***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Trend in operating costs

Costs/mt (Rs)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	YoY (%)	QoQ (%)
RM consumption	615	523	586	538	590	744	733	834	805	*36.4*	*(3.4)*
Employee cost	269	314	340	296	250	327	362	339	288	*15.2*	*(15.0)*
Freight Cost	1,292	1,294	1,259	1,204	1,312	1,041	990	996	1,037	*(21.0)*	*4.1*
Power and fuel	794	982	956	986	893	985	995	911	868	*(2.8)*	*(4.8)*
Other exp	616	602	651	600	624	697	668	700	790	*26.6*	*12.8*
Op exp /mt	**3,586**	**3,715**	**3,791**	**3,623**	**3,670**	**3,795**	**3,748**	**3,780**	**3,788**	***3.2***	***0.2***
EBITDA/mt	**993**	**959**	**1,001**	**778**	**988**	**1,331**	**1,083**	**713**	**952**	***(3.6)***	***33.5***

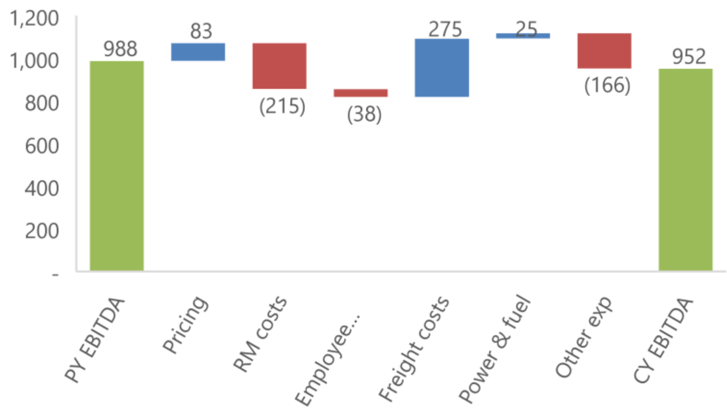
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key Financial Summary

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	44,064	51,463	53,808	49,182	58,801
YoY (%)	*11.6*	*16.8*	*4.6*	*(8.6)*	*19.6*
EBITDA	10,994	10,365	11,989	11,226	13,939
EBITDA (%)	*25.0*	*20.1*	*22.3*	*22.8*	*23.7*
Adj. PAT	5,557	5,059	6,034	4,803	6,239
YoY (%)	*(14.4)*	*(9.0)*	*19.3*	*(20.4)*	*29.9*
EPS (Rs)	23.6	21.5	25.6	20.4	26.5
ROE (%)	*14.3*	*11.9*	*12.8*	*9.3*	*11.1*
EV/EBITDA	16.1	16.7	14.2	15.3	12.0
EV/mt ($)	164.3	148.4	119.5	109.1	106.2
P/E (x)	30.2	31.6	25.2	31.6	24.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: YoY Movement in EBITDA/mt



Source: Nirmal Bang Institutional Equities Research

4QFY20 Press Release highlights

Demand

- The company expects demand to improve as the lockdown restrictions get lifted gradually. As a result, the capacity utilization would improve and stabilize in the medium to long term.

- New construction activity is minimal in urban areas whereas there is some demand uptick in rural areas and the company is well positioned in rural markets.

- The company expects slowdown in builder & commercial segment and also in infrastructure segment due to non-availability of labour, logistics constraints and stress in financial sector.

Costs

- Prices of petcoke, coal and diesel remained benign during the year.

- During FY20, average petcoke, coal and diesel prices declined by 28%, 9% and 4%, respectively.

- The company's supply chain got affected due to COVID-19, which improved once the lockdown restriction got lifted.

Capex

- During March 2020, the company completed the expansion of grinding unit in Vizag, Andhra Pradesh from 0.95mn mt to 2mn mt.

- New grinding unit in Haridaspur, Odisha with a capacity of 1mn mt is expected to be commissioned by August 2020.

- Expansion of clinkering capacity at Jayanthipuram, Andhra Pradesh from 3mn mt to 4.5mn mt along with a WHRS capacity of 27MW is expected by March 2021.

- A new integrated cement plant in Kurnool, Andhra Pradesh with a clinker and cement capacity of 2.25mn mt and 1mn mt, respectively is expected to be commissioned by March 2021. The plant will have railway siding, thermal power plant of 18MW and WHRS of 12.15MW.

- The total cost of this capacity expansion is Rs33bn, out of which Rs19.2bn was spent in FY20 and the balance will be spent in FY21.

Debt

- Gross debt of Rs30.24bn includes Rs15.51bn term loans from banks, Rs3.95bn debentures, Rs2.78bn interest free long term loans and Rs3.92bn in current maturities.

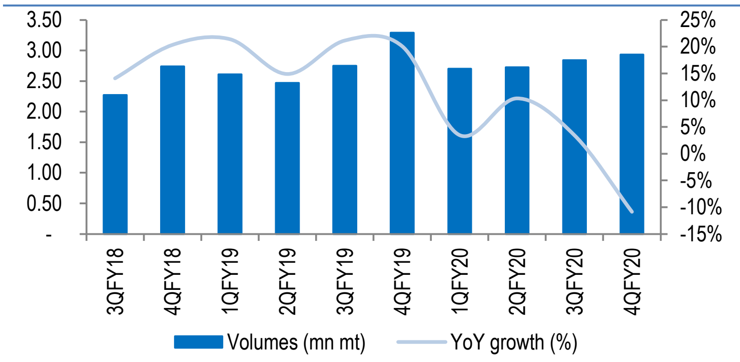
- Average cost of debt is 7.34% p.a.

- The company has not opted for any moratorium given by the banks.

Others

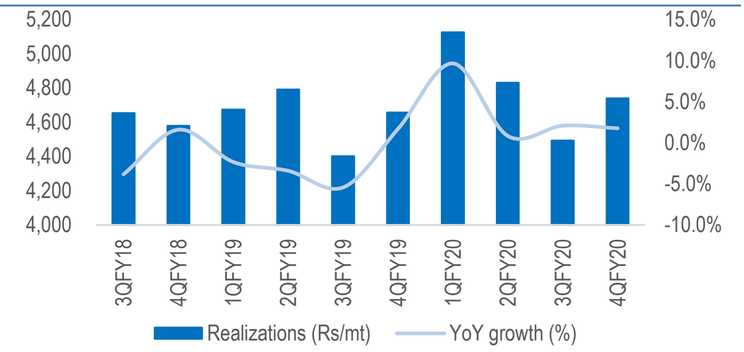
- The company expects a significant impact on revenue and profitability in 1QFY21.

Exhibit 6: Volume was down by 10.9% YoY



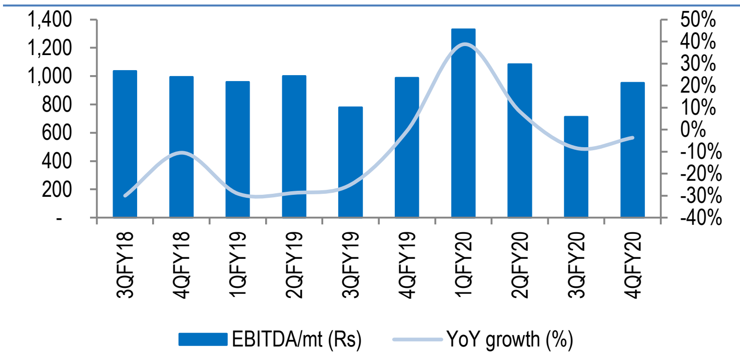
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Realization was up by 5.5% QoQ



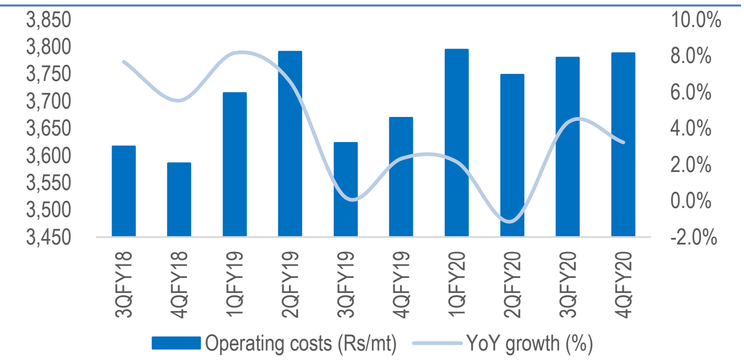
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA was up 33.5% QoQ



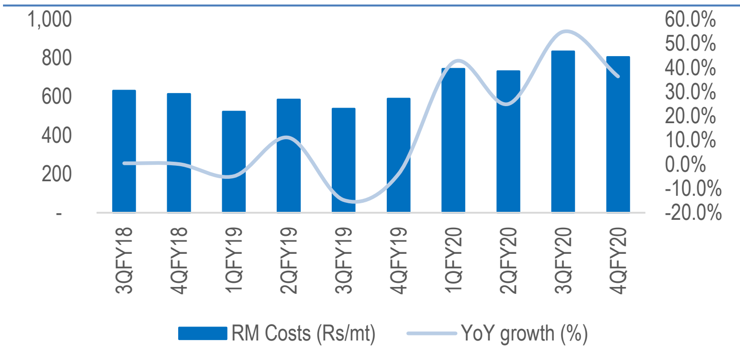
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Operating cost was up 3.2% YoY



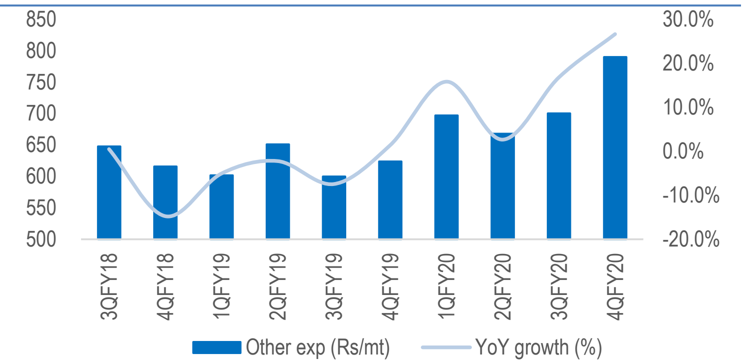
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: RM cost was up by 36.4% YoY



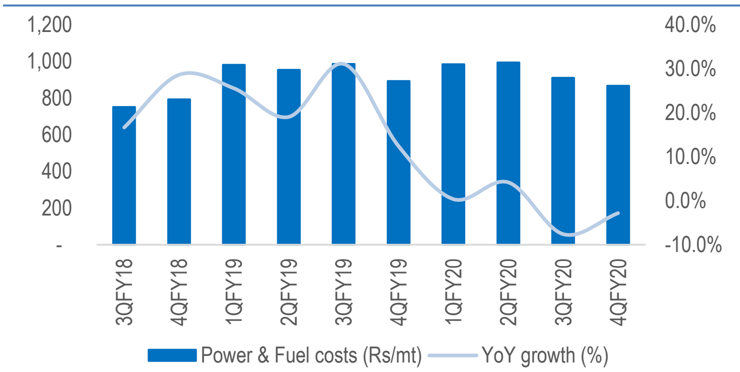
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Other expenses were up 26.6% YoY



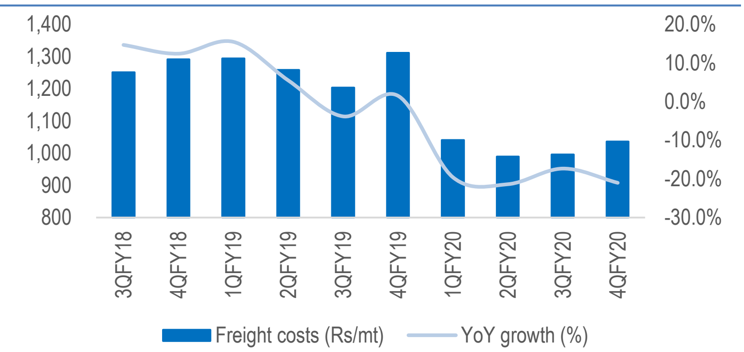
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Power & Fuel cost was down by 2.9% YoY



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Freight cost was down by 21% YoY



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: TRCL - Key changes to our assumptions

Particulars	FY21E			FY22E		
(Rs)	**Old**	**New**	***Change (%)***	**Old**	**New**	***Change (%)***
Volumes (mn mt)	11.1	10.3	*(7.0)*	12.8	12.0	*(6.3)*
Realization	4,633	4,758	*2.7*	4,843	4,904	*1.3*
Op exp / mt	933	1,086	*16.4*	1,065	1,163	*9.2*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: TRCL: Key changes to our estimates

Particulars	FY21E			FY22E		
(Rs mn)	**Old**	**New**	***Change (%)***	**Old**	**New**	***Change (%)***
Revenue	51,527	49,182	*(4.6)*	61,942	58,801	*(5.1)*
EBITDA	10,374	11,226	*8.2*	13,618	13,939	*2.4*
PAT	4,172	4,803	*15.1*	6,001	6,239	*4.0*
EPS	17.7	20.4	*15.2*	25.5	26.5	*3.9*
TP (Rs)				596	636	*6.7*

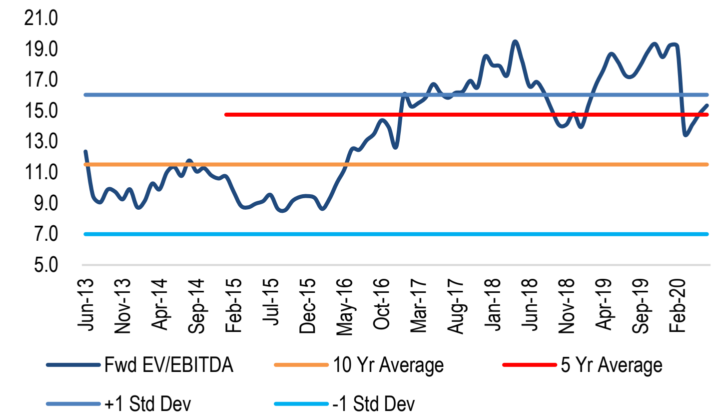
Source: Company, Nirmal Bang Institutional Equities Research

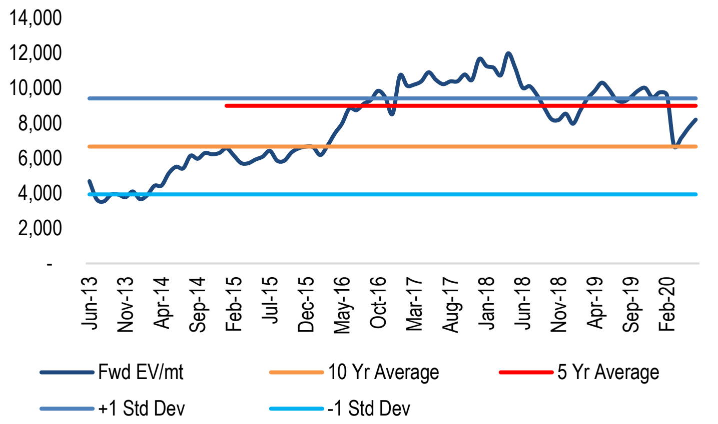
Exhibit 16: Valuation summary

Particulars	(Rs)
Sep 21 EBITDA	12,583
Target multiple (x)	13.5
Enterprise value	1,69,866
Less: Net debt	20,059
Equity value	1,49,807
No of shares (mn)	235.6
Value per share (Rs)	**636**
CMP (Rs)	645
Upside / (downside) %	**-1%**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Rolling valuation charts





Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 18: Income statement

YE March, Rsmn	FY18	FY19	FY20	FY21E	FY22E
Net Sales	**44,064**	**51,463**	**53,808**	**49,182**	**58,801**
Raw Material Consumed	7,466	8,367	9,666	8,626	10,307
Power & Fuel Cost	7,291	10,573	10,465	9,147	11,035
Employee Cost	3,040	3,295	3,493	3,597	3,885
Freight and Forwarding	9,281	11,880	10,799	9,537	11,506
Other expenses	5,992	6,982	7,396	7,049	8,129
Total Expenditure	33,069	41,097	41,819	37,957	44,861
Operating profit	**10,994**	**10,365**	**11,989**	**11,226**	**13,939**
Operating profit margin (%)	*25%*	*20%*	*22%*	*23%*	*24%*
Other Income	366	284	288	291	295
Interest	592	509	725	1,128	1,570
Depreciation	2,922	2,985	3,397	3,899	4,234
PBT	7,847	7,156	8,154	6,490	8,431
Exceptional items	-	-	-	-	-
PBT post exc items	7,847	7,156	8,154	6,490	8,431
Tax	2,290	2,097	2,120	1,687	2,192
Tax rate (%)	*29%*	*29%*	*26%*	*26%*	*26%*
PAT	**5,557**	**5,059**	**6,034**	**4,803**	**6,239**
EPS (Rs)	**23.6**	**21.5**	**25.6**	**20.4**	**26.5**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Balance Sheet

YE March, Rsmn	FY18	FY19	FY20	FY21E	FY22E
Equity Capital	236	236	236	236	236
Reserves and Surplus	40,186	44,366	49,547	53,497	58,883
Networth	40,422	44,601	49,783	53,733	59,119
Total Debt	10,117	14,278	19,923	21,891	17,776
Deferred tax liability	7,951	8,704	8,704	8,704	8,704
Other non-current liabilities	87	157	165	173	182
Trade Payables	2,671	2,572	2,864	2,600	3,073
Other Current Liabilities	9,681	10,769	11,356	11,056	12,352
Total Current Liabilities	18,179	20,477	21,935	21,771	19,825
Total liabilities	**70,929**	**81,082**	**92,795**	**98,157**	**1,01,206**
Net Block	50,605	51,212	63,841	71,941	74,208
CWIP	1,749	8,526	7,500	5,000	3,000
Investment	3,968	4,295	4,396	4,502	4,613
Other non-current assets	1,598	3,291	2,505	1,995	1,712
Inventories	5,599	5,597	5,853	5,350	6,396
Sundry Debtors	4,423	4,900	5,307	5,255	6,444
Cash and Bank	1,194	928	1,173	2,019	2,478
Other current assets	1,791	2,334	2,219	2,094	2,355
Total Current Assets	13,007	13,758	14,552	14,718	17,673
Total Assets	**70,929**	**81,082**	**92,795**	**98,157**	**1,01,206**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Key ratios

YE March	FY18	FY19	FY20	FY21E	FY22E
Growth (%)					
Sales	11.6	16.8	4.6	(8.6)	19.6
Operating Profits	(8.0)	(5.7)	15.7	(6.4)	24.2
Net Profits	12.6	9.8	11.2	9.8	10.6
Leverage (x)					
Net Debt: Equity	0.22	0.30	0.38	0.37	0.26
Interest Cover(x)	18.57	20.38	16.54	9.96	8.88
Total Debt/EBITDA	0.92	1.38	1.66	1.95	1.28
Profitability (%)					
OPM	25.0	20.1	22.3	22.8	23.7
NPM	12.6	9.8	11.2	9.8	10.6
ROE	14.3	11.9	12.8	9.3	11.1
ROCE	21.0	17.9	17.6	14.1	16.1
Turnover ratios (x)					
GFAT	0.6	0.6	0.6	0.5	0.5
Debtors Turnover(x)	9	11	11	9	10
WC days	75	64	65	71	64
Valuation (x)					
P/E	30.2	31.6	25.2	31.6	24.3
P/B	4.2	3.6	3.1	2.8	2.6
EV/EBIDTA	16.1	16.7	14.2	15.3	12.0
EV/mt ($)	164.3	148.4	119.5	109.1	106.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Cash flow statement

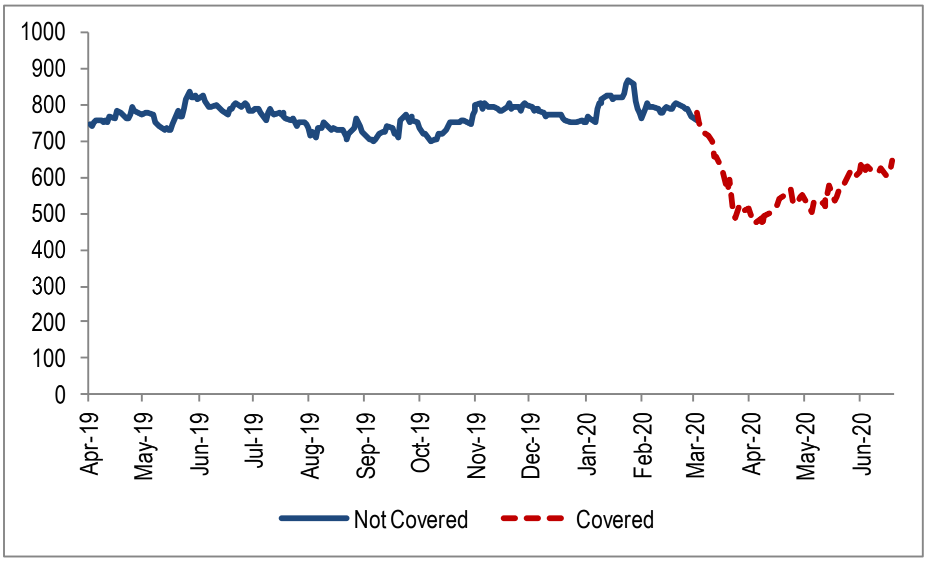
YE March, Rsmn	FY18	FY19	FY20	FY21E	FY22E
Profit before tax	7,847	7,156	8,154	6,490	8,431
Add: Depreciation	2,922	2,985	3,397	3,899	4,234
Add: Interest Exp	592	509	725	1,128	1,570
CFO b4 WC	11,348	10,650	12,277	11,517	14,234
Net change in Working capital	(316)	(29)	330	116	(727)
Tax paid	(2,290)	(2,097)	(2,120)	(1,687)	(2,192)
Net cash from operations	**8,742**	**8,524**	**10,487**	**9,946**	**11,315**
Capital expenditure	(4,637)	(10,369)	(15,000)	(9,500)	(4,500)
Sale of investments	(79)	(326)	(102)	(106)	(110)
Net cash from investing	**(4,928)**	**(12,388)**	**(14,316)**	**(9,096)**	**(4,327)**
Issue of shares	(3)	-	-	-	-
Increase in debt	(1,380)	4,162	5,644	1,968	(4,115)
Dividends paid incl. tax	(852)	(853)	(853)	(853)	(853)
Interest paid	(592)	(509)	(725)	(1,128)	(1,570)
Net cash from financing	**(3,802)**	**3,597**	**4,075**	**(4)**	**(6,529)**
Net Cash	13	(267)	245	846	459
Opening Cash	1,181	1,194	928	1,173	2,019
Closing Cash	**1,194**	**928**	**1,173**	**2,019**	**2,478**

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 March 2020	ACCUMULATE	770	770
13 April 2020	BUY	495	596
22 June 2020	ACCUMULATE	646	636

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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