

Weak Quarter margin pressure to continue.

CMP: INR 897

Rating: Hold

Target Price: INR 1,002

Stock Info

BSE	500260
NSE	RAMCOCEM
Bloomberg	TRCL IN
Reuters	TRCE.BO
Sector	Cement
Face Value (INR)	1
Equity Capital (INR mn)	236
Mkt Cap (INR mn)	2,1930.6
52w H/L (INR)	1,131/ 766
Avg. Yearly Vol (in 000')	520

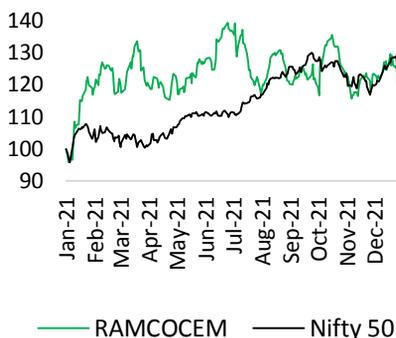
Shareholding Pattern %

(As on December, 2021)

Promoters	42.47
Public & Others	57.53

Stock Performance (%)	1m	3m	12m
Ramco Cement	(9.5)	(7)	10.8
Nifty 50	0.9	(5.3)	19.3

Ramco Cement Vs Nifty 50



Ramco Cement Limited reported weak set of numbers in Q3FY22 Revenue from Operations grew by 15.7% YoY, and 3.8% QoQ to INR 15491 mn above our estimate INR 13969 mn. Sales Volume grew by 15% YoY and 11.1% QOQ to 3.0 MMT above our estimate of 2.6 MMT. Share of premium products stands at 22% for the current period. Demand for the quarter was weak in southern and eastern market due to delayed monsoons, festive season and covid implications. Realization/tonne remained flat YoY and declined by 6.6% QoQ to INR 5164 below our expectation of INR 5373. QoQ Sharp decline in realization was mainly due to fall in cement prices in December 21.

EBIDTA declined by 42% YoY and by 41% QoQ to INR 2309 mn below our estimates of INR 3203 mn. EBIDTA margin contracted by 1474 bps YoY and 1147 bps QoQ to 14.9%. Pressure on EBIDTA margin was mainly due to sharp increase in fuel prices and fall in cement prices Pet coke and coal prices sharply increased consequently power and fuel cost has increased by 562/ton YoY to 1380/ton in Q3FY22 EBIDTA /ton declined by 50% YoY and 47% QoQ to INR 770 mn below our expectation of INR 1232.

PAT declined by 59% YoY and 84% QoQ to INR 826 mn below our expectation of INR 1422 mn led by poor operating performance and higher finance cost and depreciation cost on YoY basis and tax adjustment.

As per Section 115BAA in the Income Tax Act, 1961, the Company has an irrevocable option of shifting to a lower tax rate and simultaneously forgo certain tax incentives, deductions and accumulated MAT credit. In view of the overall tax benefits available under the said option, the Company has opted for shifting to lower tax rate from FY 2021-22 during the previous quarter. Consequent to adoption of new tax regime, the company has written back the excess deferred tax provision of INR 3056 mn from Deferred Tax Liability to P&L. While there will be no impact on Profit before Tax, the Profit after Tax will be higher by Rs.3056 mn for the previous quarter.

Outlook and Valuations

At a CMP of INR 897 stock is trading at an EV/EBIDTA multiple of 12.3(x) and 10.3(x) and to its F23E and FY24E Company has delivered weak performance in Q3FY22 amid subdued cement demand, fall in cement prices and rising input cost. The company has been demonstrating strong performance in past despite being in the region that has been witnessing supply glut for several years. TRCL's capacity expansion will support market share gains which along with the growth in economic activities will support volumes. Cement demand is likely to improve in Q4FY22 However margin pressure is expected to continue due to rising input cost in Q4, however raw material is expected to ease from Q1FY23. We value the stock at 11.5 (x) EV/EBIDTA to its FY24E EBIDTA of INR 20,991 Mn to arrive at a target price of INR 1,002 and we assign Hold rating on the stock with an upside potential of 11.7%.

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Operational & Con-Call Highlights

- During this quarter, the Company has launched its new product viz. Super Plaster in Karnataka and AP markets. This product was launched in Tamil Nadu during the previous quarter. The company continue to focus on the strategy of right products for right applicationsto make its brand stronger.
- The industry could not pass on the cost increase arising out of sharp fuel price hike, to its customers in view of weak demand persisted during the quarter, due to various reasons viz, monsoon, festivals and COVID implications.
- Logistics cost/t increased by ~10% yoy to INR 1,111/t due to increase in diesel price by 23%, Energy cost/t increased by 69% yoy to INR 1,380/t due to increase in pet coke prices to \$250/t (avg fuel consumption cost of \$149/t for Q3 vs \$113/t in Q2). RM costs/t rose by 10% yoy to Rs 818/t during the quarter.
- Avg. Lead distance for Q3FY22 was 325 kms (-8% yoy) and 9MFY22 was 324 kms (up 1% yoy)
- 9MFY22 Power mix: Thermal/Grid/Green Power: 70%/15%/15% vs. 77%/15%/8% in 9MFY21

Capacity Expansion

- Clinkering unit of 2.25 MTPA in Kurnool will be commissioned in Feb 2022.
- Cement mill of 1 MTPA in Kurnool will be commissioned in FY23.
- WHRS capacity of 12.15 MW in Kurnool will be commissioned in FY23.
- TPP capacity of 18 MW in Kurnool will be commissioned in FY23.
- Modernization of RRN Plant with the new 3000 TPD Kiln will be commissioned in FY24.
- Expansion of Dry Mortar Plant will be commissioned in FY24.
- During 9MFY22, the company has incurred INR 13870 mn towards capex, including for the ongoing capacity expansion programme.

Q3 FY22 - Quarterly Performance

(in INR Mn)

Particulars (INR Mn)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Net Revenue	15,491	14,931	13,390	3.8%	15.7%
Material Cost	10,068	8,005	6,920	25.8%	45.5%
Employee Cost	1,057	1,096	998	-3.6%	5.9%
Other Expenses	2,057	1,892	1,503	8.7%	36.9%
EBITDA	2,309	3,938	3,969	-41.4%	-41.8%
<i>EBITDA Margin %</i>	<i>14.9%</i>	<i>26.4%</i>	<i>29.6%</i>	<i>-1147bps</i>	<i>-1474bps</i>
Other Income	68	79	64	-13.9%	6.3%
Depreciation	992	985	896	0.7%	10.7%
EBIT	1,385	3,032	3,137	-54.3%	-55.8%
Finance Cost	253	294	160	-13.9%	58.1%
Exceptional Item	-	-	-	-	-
PBT	1,132	2,738	2,977	-58.7%	-62.0%
Tax Expense	306	-2,432	964	-112.6%	-68.3%
Effective Tax Rate %	27.0%	-88.8%	32.4%	<i>11586bps</i>	<i>-535bps</i>
PAT	826	5,170	2,013	-84.0%	-59.0%
<i>PAT Margin %</i>	<i>5.3%</i>	<i>34.6%</i>	<i>15.0%</i>	<i>-2929bps</i>	<i>1,580.00</i>
EPS (Rs)	3.0	22.0	9.0	-86.4%	-66.7%

Source: Company Filings, Arihant Research

Valuations

INR Mn	FY24E
EV/EBITDA (x)	11.5
EBITDA	20991
EV	241392
Debt	27847
Cash	22435
Market Cap	235979
No shares	236
CMP (INR)	897
Target (INR)	1,002
Upside (%)	11.7%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement

Y/E March (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues	53,893	52,910	61,255	72,334	82,316
Change (%)	4.4%	-1.8%	15.8%	18.1%	13.8%
Total Expenses	42,419	37,337	45,635	53,888	61,325
EBITDA	11,474	15,573	15,620	18,445	20,991
Other Income	335	304	306	362	412
Depreciation	3,165	3,566	3,821	4,271	4,721
Interest	721	876	775	805	835
PBT	7,922	11,435	11,330	13,731	15,846
Extra-ordinary	0	0	0	0	0
PBT after ext-ord.	7,922	11,435	11,330	13,731	15,846
Tax	1,879	3,799	3,399	4,119	4,754
Rate (%)	23.7%	20.0%	30.0%	30.0%	30.0%
PAT	6,044	7,636	7,931	9,611	11,092
MI & Associates	-3	201	0	0	0
Consolidated PAT	6,041	7,837	7,931	9,611	11,092
Change (%)	18.3%	29.7%	1.2%	21.2%	15.4%

Source: Company, Arihant Research

Cash Flow Statement

Y/E March (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	7,922	11,435	11,330	13,731	15,846
Depreciation	3,165	3,566	3,821	4,271	4,721
Interest & others	389	371	469	444	424
Cash flow before WC changes	11,477	11,353	15,620	18,445	20,991
(Inc)/dec in working capital	916	2,885	-2,066	306	276
Operating CF after WC changes	12,393	14,238	13,554	18,751	21,267
Less: Taxes	-1,879	-3,799	-3,399	-4,119	-4,754
Operating Cash Flow	10,514	10,439	10,155	14,632	16,513
(Inc)/dec in F.A + CWIP	-17,508	-14,075	-15,000	-15,000	-15,000
(Pur)/sale of investment	-168	-315	0	0	0
Cash Flow from Investing	-17,676	-14,390	-15,000	-15,000	-15,000
Free Cash Flow (FCF)	-5,858	-3,999	-4,845	-368	1,513
Loan raised/(repaid)	12,019	-1,477	1,000	1,000	1,000
Equity raised	0	0	0	0	0
Interest & others	-567	6,630	6,168	8,099	9,550
Dividend	-589	-707	-707	-707	-707
Cash Flow from Financing Activities	10,862	4,447	6,461	8,392	9,843
Net inc/(dec) in cash	-7	496	1,616	8,025	11,356
Opening balance of cash	948	942	1,438	3,054	11,079
Closing balance of cash	941	1,438	3,054	11,079	22,435

Source: Company, Arihant Research

Balance Sheet

Y/E March (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Share Capital	236	236	236	236	236
Reserves & Surplus	49,778	57,081	64,305	73,210	83,595
Net Worth	50,014	57,317	64,541	73,446	83,831
Loan Funds	26,324	24,847	25,847	26,847	27,847
MI, Deferred Tax & other Liabilities	9,307	11,012	11,012	11,012	11,012
Capital Employed	85,725	99,426	1,18,108	1,40,855	1,51,964
Application of Funds					
Net Block	59,934	69,211	84,211	99,211	99,211
CWIP	18,964	24,125	24,125	24,125	24,125
Other Non-current Assets	3,915	3,552	3,552	3,552	3,552
Deferred Tax Assets	4	4	4	4	4
Net Fixed Assets	82,816	96,891	1,11,891	1,26,891	1,26,891
Investments	2,755	3,070	3,070	3,070	3,070
Debtors	5,276	3,759	4,363	5,153	5,864
Inventories	6,469	5,993	7,518	8,877	10,103
Cash & Bank Balance	942	1,438	3,054	11,079	22,435
Loans & Advances & other CA	3,071	3,398	5,721	6,461	7,131
Total Current Assets	15,757	14,589	20,657	31,570	45,533
Current Liabilities	15,070	14,479	16,763	19,795	22,527
Provisions	533	0	0	0	0
Net Current Assets	154	-535	3,147	10,894	22,003
Total Assets	85,725	99,426	1,18,108	1,40,855	1,51,964

Key Ratios

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
Per share (INR)					
EPS	25.6	33.3	33.7	40.8	47.1
CEPS	39.1	48.4	49.9	58.9	67.1
BVPS	212.3	243.3	273.9	311.7	355.8
DPS	2.5	3.0	3.0	3.0	3.0
Div. Payout (%)	9.7%	9.0%	8.9%	7.4%	6.4%
Valuation (x)					
P/E	35.0	27.0	26.6	22.0	19.1
P/CEPS	23.0	18.5	18.0	15.2	13.4
P/BV	4.2	3.7	3.3	2.9	2.5
EV/EBITDA	20.6	15.1	15.0	12.3	10.3
Dividend Yield (%)	0.3%	0.3%	0.3%	0.3%	0.3%
Return Ratio (%)					
EBITDA Margin	21.3%	29.4%	25.5%	25.5%	25.5%
PAT Margin	11.2%	14.8%	12.9%	13.3%	13.5%
ROE	12.1%	13.7%	12.3%	13.1%	13.2%
ROCE	9.7%	12.1%	10.0%	10.1%	10.7%
Leverage Ratio (x)					
Total D/E	0.5	0.4	0.4	0.4	0.3
Net D/E	0.5	0.4	0.4	0.2	0.1
Turnover Ratios					
Asset Turnover (x)	0.6	0.5	0.5	0.5	0.5
Receivable Days	36	26	26	26	26
Payable days	102	100	100	100	100

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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