



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated Aug 08, 2023

34.01

## High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

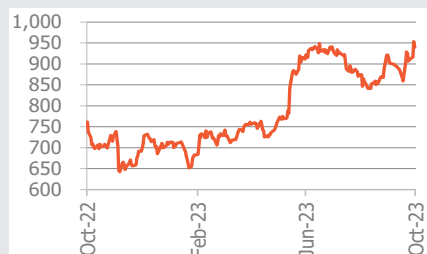
## Company details

Market cap:	Rs. 22,209 cr
52-week high/low:	Rs. 963/635
NSE volume: (No of shares)	9.0 lakh
BSE code:	500260
NSE code:	RAMCOCEM
Free float: (No of shares)	13.7 cr

## Shareholding (%)

Promoters	42.1
FII	8.0
DII	35.8
Others	14.1

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	-0.1	23.6	23.4
Relative to Sensex	2.2	-0.4	13.6	10.7

Sharekhan Research, Bloomberg

# The Ramco Cements Ltd

## Regional prices materially rise; Retain Buy

Cement	Sharekhan code: RAMCOCEM		
Reco/View: Buy	↔	CMP: Rs. 940	Price Target: Rs. 1,130
↑ Upgrade	↔ Maintain	↓ Downgrade	

## Summary

- We retain a Buy on The Ramco Cements Limited (Ramco) with a revised PT of Rs. 1130, rolling forward our valuation multiple to September 2025 earnings and considering its strong earnings growth profile over FY2023-FY2026E.
- Average cement prices in the South rise by almost Rs. 40 per bag in October, translating to 10% higher cement prices compared to the Q2FY2024 average.
- International coal prices and domestic pet coke prices soften post Q2FY2024, providing operational profitability tailwinds given robust demand environment and increase in cement prices.
- The company would be aiming 20% y-o-y volume growth for FY2024 given strong demand environment. Its Odisha grinding unit of 0.9 mtpa is expected to be commissioned by FY2024 end.

Ramco Cements is expected to benefit from a sharp increase in average cement prices in the Southern region, and easing of fuel costs post Q2FY2024. Average cement prices in the South have increased by almost Rs. 40/bag w.e.f. October 5, 2023, translating to 10% higher cement prices compared to the Q2FY2024 average. The cement demand remains healthy during Q2FY2024 despite a seasonally weak quarter and is expected to sustain the momentum for FY2024. The company would be aiming for 20% y-o-y volume growth for FY2024. Further, in October, international coal and domestic pet coke prices have seen a drop of ~13% m-o-m and 5% m-o-m respectively. The same, coupled with an increase in regional cement prices, would aid operational profitability expansion. The company's focus on the non-trade segment, premiumisation, cost efficiencies, increased realisations and robust demand environment is expected to drive operational and net profitability. We have introduced FY2026E earnings in this note. At CMP, the stock is trading at 14x/13x EV/EBITDA on its FY2025E/FY2026E earnings, providing further room for upside.

- Southern cement prices resurrect sharply post lagging in Q2FY2024:** As per our channel checks, average cement prices in the Southern region have seen a sharp rise of almost Rs. 40/bag with effect from October 5, 2023. Consequently, the current average cement prices in the South are higher by 10% compared to the Q2FY2024 average. The steep price hike in the Southern region comes after it is a laggard during Q2FY2024, which saw less than 1% q-o-q increase compared to a 1-2% q-o-q rise in West, North and Central regions and 4% q-o-q rise in East. We expect Ramco Cements to benefit from a strong revival in cement prices in the Southern region, which, if sustained, provides a case for upward revision in earnings estimates.
- Healthy demand environment with fuel costs inching lower post Q2FY2024:** The cement transported through Rail saw a marginal increase of 1.3% y-o-y (down 6.9% m-o-m) post a strong August (up 10.4% y-o-y and 8.8% m-o-m) affected by the monsoon season. The cement demand is expected to remain healthy during Q2FY2024 with pan-India cement demand estimated at double-digit y-o-y. International coal and domestic pet coke prices have dropped in October by ~13% m-o-m and 5% m-o-m, respectively. The decline in fuel prices post Q2FY2024, if sustained would aid operational profitability going ahead, given the uptick seen in cement prices.
- High volume growth outlook along with margin expansion tailwinds:** Ramco Cements is targeting 20% y-o-y volume growth for FY2024, given strong demand environment from both infrastructure and housing segments. Its Odisha grinding unit Line II of 0.9 mtpa cement capacity is expected to be commissioned by FY2024 end. The sharp cement price hikes in the Southern region, softening of fuel costs post Q2FY2024 and operating leverage kicking from high volume growth is expected to drive operational performance for FY2024.

## Our Call

**Valuation – Retain Buy with a revised PT of Rs. 1,130:** Ramco's focus on the non-trade segment, improved demand and pricing outlook for its region of operations is expected to lead to strong volume growth and higher operational profitability. Further, focusing on premiumisation and improving cost efficiencies is expected to boost operating and net profitability. The company's front-loading of capital expenditure for future expansions is expected to yield lower costs for organic expansions. However, it has resulted in weak RoCEs in the interim. We have introduced our FY2026E earnings in this note. At CMP, the stock is trading at an EV/EBITDA of 14x/13x its FY2025E/FY2026E earnings, which we believe provides further room for upside considering its strong earnings growth trajectory over FY2023-FY2026E. Consequently, we retain Buy with a revised price target (PT) of Rs. 1130, rolling forward our valuation multiple to September 2025E earnings.

## Key Risks

Weak demand and pricing environment in South India would affect profitability.

## Valuation (Standalone)

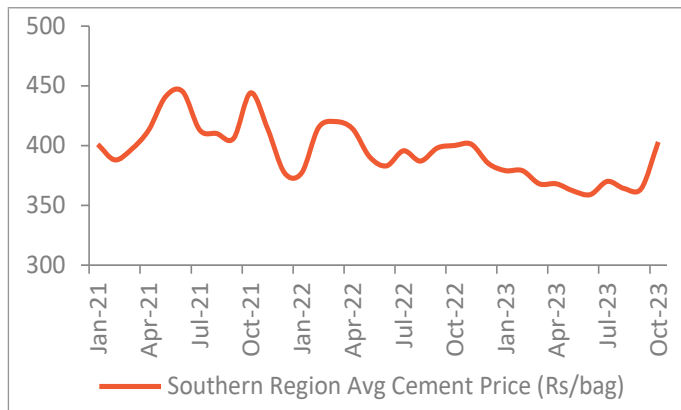
Particulars	FY23	FY24E	FY25E	FY26E
Revenue	8,135	9,631	10,952	11,726
OPM (%)	14.5	16.3	17.3	17.3
Adjusted PAT	344	506	714	821
% YoY growth	-61.5	47.1	41.3	15.0
Adjusted EPS (Rs.)	14.5	21.4	30.2	34.8
P/E (x)	64.7	44.0	31.1	27.1
P/B (x)	3.3	3.1	2.8	2.6
EV/EBITDA (x)	22.3	16.8	14.0	12.8
RoNW (%)	5.2%	7.2%	9.5%	10.0%
RoCE (%)	4.4%	6.1%	7.4%	7.8%

Source: Company; Sharekhan estimates

## Cement prices in the South see material jump post-Q2FY2024

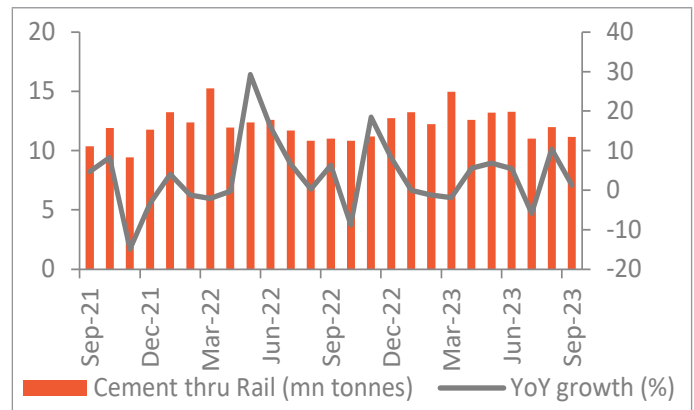
As per our channel checks, average cement prices in the Southern region have seen a sharp rise of almost Rs. 40/bag with effect from October 5, 2023. Barring Kerala, other states in the Southern region have seen a price increase of Rs. 40-55 per bag. Consequently, the current average cement prices in South are higher by 10% compared to Q2FY2024 average. The steep price hike in Southern region comes after it being a laggard during Q2FY2024, which saw less than 1% q-o-q increase compared to 1-2% q-o-q rise in West, North and Central regions and 4% q-o-q rise in East. Overall, average pan-India cement prices were up 1.8% q-o-q in Q2FY2024 led by Eastern region. We expect The Ramco Cements to benefit from a strong revival in cement prices in the Southern region, which, if sustained, provides a case for upward revision in earnings estimates.

### South price +10.7%/+0.8% (Oct'23 vs. m-o-m/y-o-y)



Source: Industry; Sharekhan Research

### Cement transported through rail trend

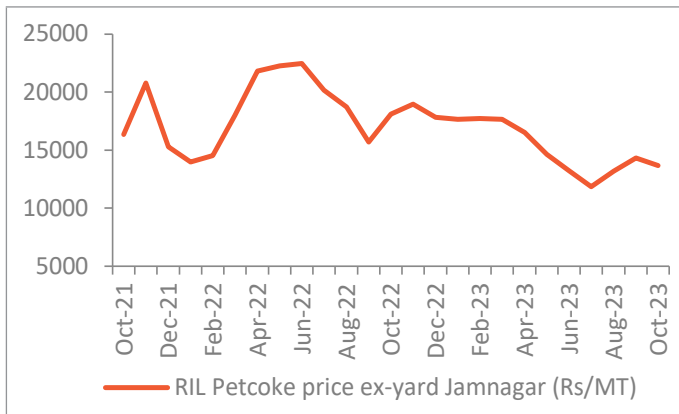


Source: Ministry of Railways; Sharekhan Research

## Demand stays healthy while fuel prices inch lower

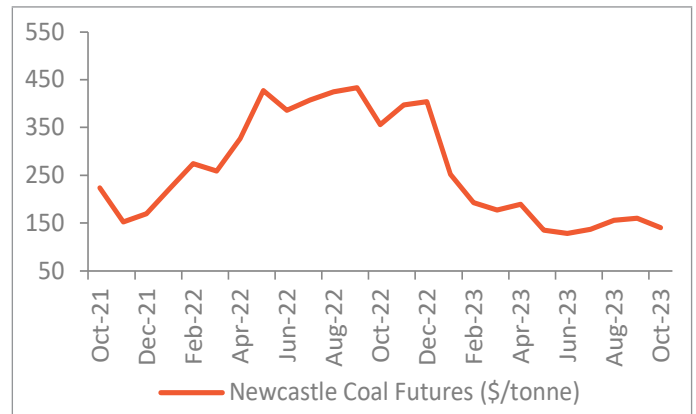
The cement transported through Rail saw a marginal increase of 1.3% y-o-y (down 6.9% m-o-m) post a strong August (up 10.4% y-o-y and 8.8% m-o-m) affected by monsoon season. The cement demand is expected to remain healthy during Q2FY2024, with pan-India cement demand estimated in double-digit y-o-y. International coal prices have dropped in October, with coal prices trading lower by ~13% m-o-m (average Q2FY2024 international coal prices remained almost flat q-o-q). Further, domestic pet coke prices for October 2023 decreased by 5% m-o-m (down 25% y-o-y while average Q2FY2024 pet coke prices were lower by 11% q-o-q). Regarding freight costs, average retail diesel prices across metros for Q2FY2024 have stayed flat both y-o-y and q-o-q. Rail freight prices during Q2FY2024 were lower 8% q-o-q, although the same remains higher by 6% y-o-y.

**Domestic pet coke price trend**



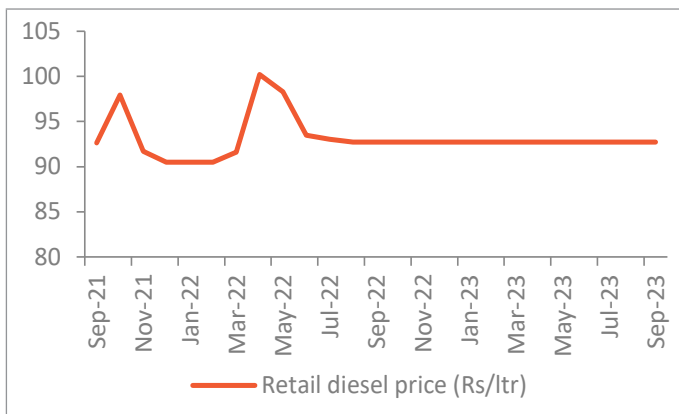
Source: Industry; Sharekhan Research

**Imported coal price trend**



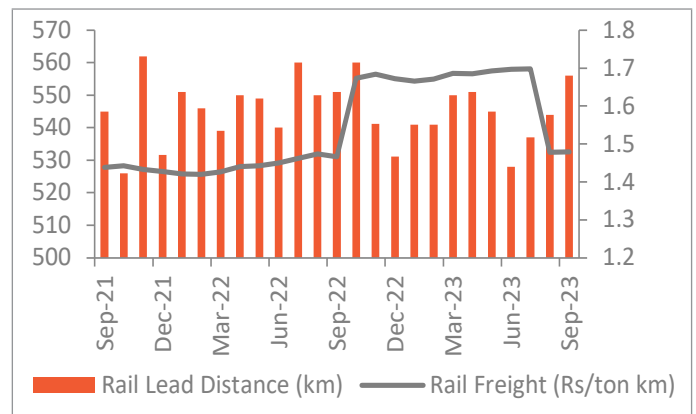
Source: Industry; Sharekhan Research

**Retail diesel price trend**



Source: Ministry of Petroleum; Sharekhan Research

**Railways cement lead distance and freight trend**



Source: Ministry of Railways; Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Improving demand brightens the outlook

The cement industry has seen a sustained improvement in demand in the past 15 years. Barring a couple of years, regional cement prices have been rising over the trailing five years. The cement industry is expected to witness improvement in demand as the situation normalizes from the second wave of COVID-19, led by infrastructure and rural market. A strong pick-up in the residential real estate sector is expected to sustain after the second wave of COVID-19. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. The government's Rs. 111-lakh crore infrastructure investment plans from FY2020 to FY2025 would lead to healthy market.

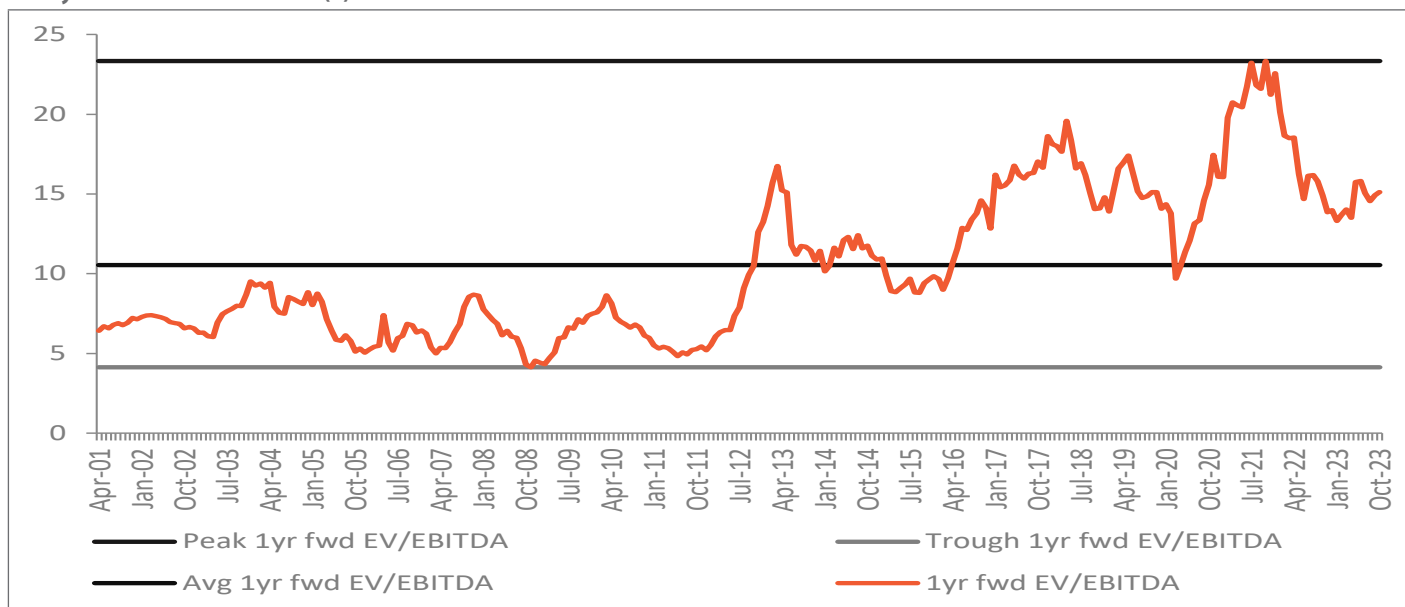
### ■ Company Outlook – Capacity additions expected to capture growth opportunities

The company's ongoing capex plan is to create new grinding and clinker capacities to help it tap the growth potential in the Eastern region and establish itself as a significant player. Front-loading of capex for future expansions would help it to add incremental organic capacities at lower costs, although it has led to lower return ratios in the interim. The management expects strong volume growth of 20% y-o-y for FY2024, given resilient demand environment in the infrastructure and housing sectors. In the near term, the focus would be commissioning the Odisha grinding unit, the second line at Kurnool before venturing into Karnataka. It is poised for a strong earnings growth trajectory over the next two years.

### ■ Valuation – Retain Buy with a revised PT of Rs. 1130

Ramco's focus on the non-trade segment, improved demand and pricing outlook for its region of operations is expected to lead to strong volume growth and higher operational profitability. Further, focusing on premiumisation and improving cost efficiencies is expected to boost operating and net profitability. The company's front-loading of capital expenditure for future expansions is expected to yield lower costs for organic expansions. However, it has resulted in weak RoCEs in the interim. We have introduced our FY2026E earnings in this note. At CMP, the stock is trading at an EV/EBITDA of 14x/13x its FY2025E/FY2026E earnings, which we believe provides further room for upside considering its strong earnings growth trajectory over FY2023-FY2026E. Consequently, we retain Buy with a revised price target (PT) of Rs. 1130, rolling forward our valuation multiple to September 2025E earnings.

#### One-year forward EV/EBITDA (x) band



Source: Company Data; Sharekhan Research

#### Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
UltraTech	34.8	27.4	19.4	15.7	4.0	3.6	12.1	13.8
Shree Cement	53.5	42.8	21.0	16.9	4.7	4.3	9.1	10.6
The Ramco Cement	44.0	31.1	16.8	14.0	3.1	2.8	7.2	9.5
Dalmia Bharat	44.3	38.7	14.3	12.8	2.5	2.4	5.9	6.3

Source: Sharekhan Research

## About the company

Ramco is the fifth largest cement producer in the country, operating in southern India with an installed capacity of 18.79mtpa. The company also produces ready-mix concrete and dry mortar products and operates one of the largest wind farms in the country.

## Investment theme

Southern India has started showing signs of cement price improvement along with rising capacity utilisation over the trailing five quarters. Ramco, being one of the most efficient cement players, is expected to reap benefits from healthy demand, better pricing, and a benign opex environment. Ramco has embarked on a capex plan to outpace its industry peers on cement volume growth. This, along with improving cement prices, is expected to lead to strong growth in net earnings during FY2023-FY2025.

## Key Risks

- ◆ Correction in cement prices in the south and/or sharp upward movement in power and fuel and freight costs to negatively affect profitability.
- ◆ Deterioration in cement demand in south leading to lower utilisation to negatively affect net earnings.

## Additional Data

### Key management personnel

Mr. P R Venketrana Raja	Executive Director-Chairperson
A V Dharmakrishna	Chief Executive Officer
S Vaithiyanathan	Chief Financial Officer
K Selvanayagam	Company Secretary and Compliance Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ramco Industries Ltd	21.4
2	Rajapalayam Mills Ltd	13.8
3	Life Insurance Corp of India	8.7
4	Kotak Mahindra Asset Management Co	6.6
5	Government of Tamil Nadu	3.4
6	SBI Life Insurance Co Ltd	2.8
7	Vanguard Group Inc/The	2.0
8	HDFC Life Insurance Co Ltd	2.0
9	L&T Mutual Fund Trustee Ltd/India	2.0
10	SBI Funds Management Ltd	1.8

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

<b>Right Sector</b>	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
<b>Right Quality</b>	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
<b>Right Valuation</b>	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

## DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com)

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022- 41523200/022 - 33054600