

Ramco Cements Ltd.



Ramco Cements Ltd.

Outperformance to continue!

CMP INR 698	Target INR 809	Potential Upside 16%	Market Cap (INR Mn) 161904	Recommendation BUY	Sector Cement
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Result highlights

- Total Sales stood at INR 11900 mn which was up by 6.4% y-o-y and 9.0% q-o-q. Volume growth stood at 9.79% y-o-y reaching 2.28 MT as against 2.07 MT last year. Realizations remained weak during the quarter and declined by 3.37% y-o-y.
- EBITDA margins declined by 678 bps y-o-y and EBITDA stood at INR 2525 mn which was down 19.3% y-o-y and 8.1% q-o-q. The fall in EBITDA margins was primarily due to higher COGS and other expenses. The increase in other expenses was due to hike in advertisement and sales promotions.
- PAT stood at INR 1345 mn which was down by 26.3% y-o-y and 11.5% q-o-q and PAT margin stood at 11.3% during the quarter. Net profit was primarily down on y-o-y basis on account of low tax base and lower other income.

MARKET DATA

Shares outs (Mn)	238
EquityCap (INR Mn)	238
Mkt Cap (INR Mn)	161904
52 Wk H/L (INR)	728/479
Volume Avg (3m K)	232.7
Face Value (INR)	1
Bloomberg Code	TRCL IN

KEY FINANCIALS

Particulars (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	41923.60	41394.10	45820.20	51255.49	56874.05
EBITDA	7199.00	10764.70	11890.96	13162.94	15092.26
APAT	2461.30	5452.30	6626.06	7313.94	8803.85
AEPS	10.00	22.90	27.81	30.69	36.94
P/E (x)	30.35	17.53	24.38	22.71	18.87
EV/EBITDA (x)	13.78	14.73	14.76	13.26	11.24

Source: Company, KRChoksey Research

Robust volume growth during the quarter:

The cement production in the Southern region remained flattish during the quarter on account of restriction on sand availability and subdued infrastructure spending in Tamil Nadu due to of political issues. However, Ramco Cements Ltd (TRCL) delivered a robust volume growth of 9.79% Y-O-Y during the quarter and the volumes stood at 2.28 MT as against 2.07 MT in Q4FY16. Volumes stood at 8.35 MT(est. of 7.9 MT) during FY17; a healthy growth of 16% Y-O-Y as against the production growth of 6% for the southern region.

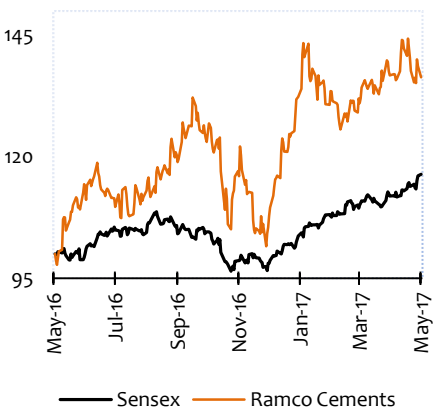
We expect cement production growth of 7.7% over FY17-FY19E in the Southern belt factoring in a surge in execution of affordable housing projects and development of Amaravati. However, we estimate TRCL to outperform on the volume front and expect the volumes for the company to grow from 8.35 MT in FY17 to 9.83 MT in FY19E; a growth of 8.5%.

Margins below estimates; to revive going ahead:

In Q4FY17, EBITDA margins for the company stood at 21.2% (est. of 25%) as against 28% in Q4FY16; down primarily on account of higher COGS and other expenses. The increase in other expenses was due to surge in advertisement and sales promotion in expanding its marketing areas (incremental cost of INR 166.7 mn as compared to Q4FY16). However, with the firming up of cement prices and increase in operating leverage; we expect the margins to revive going ahead.

We estimate EBITDA to increase from INR 1424/ton in FY17 to INR 1536/ton in FY19E and EBITDA margins to increase from 25.95% to 26.54% over the same period.

SHARE PRICE PERFORMANCE

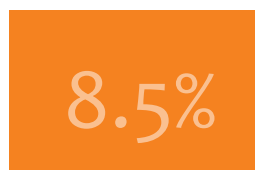


MARKET INFO

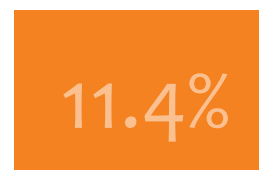
SENSEX	31159
NIFTY	9625

SHARE HOLDING PATTERN (%)

Particulars	Mar 17	Dec 16	Sep16
Promoters	42.3	42.3	42.3
FII's	14.52	14.44	15.47
DII's	18.88	25.26	24.65
Others	24.3	18	17.58
Total	100	100	100



Volume CAGR between FY 17 and FY 19E



Revenue CAGR between FY 17 and FY 19E

ANALYST

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Financial de-leveraging to continue:

The company during the year reduced overall debt of INR 6900 mn and the current net debt stands at INR 14053.7 mn. Further, the company focuses to utilize the free cash flow generation in reducing the debt. Additionally, the average interest rate for the company during the year reduced by 1.15% leading to decline of interest costs by INR 780 mn as compared to last year. We estimate a steep decline in net debt and estimate it to stand at INR 3664 mn in FY19. Consequently, we expect ROCE to improve from 14.5% in FY17 to 17.7% by FY19E.

Valuation and Outlook:

TRCL stands as the most efficient player in the cement industry with one of the strongest balance sheet. The company focuses to further reduce its debt and we expect overall debt to reduce from INR 15327 mn in FY17 to INR 8000 mn by FY19E. We expect the Southern region to grow at a robust pace of 7.7% over FY17-FY19E on account of pick up in execution of affordable housing projects, irrigation projects and development of Amaravati. We believe the company will be one of the key beneficiary of uptick in cement demand on account of huge cement capacity in place.

With an expected net debt of INR 3664 mn by FY19E, the company trades at an EV/EBITDA of 11.3x and EV/ton of \$156.

On account of i.) outperforming volume growth, ii.) most efficient cost structure, iii.) healthy balance sheet, and iv) robust return ratios; we value The Ramco Cements Ltd at an EV/EBITDA of **13x** on FY19E arriving at a target price of INR 809/share. **Maintain BUY.**

Operating metrics

Particulars (in INR)	FY15	FY16	FY17	FY18E	FY19E
Realization/ton	4767.02	4974.67	4752.03	4847.07	4944.01
COGS cost/ton	887.51	817.81	822.46	818.79	813.42
Employee cost/ton	299.02	360.28	333.64	332.98	326.87
Power and fuel cost/ton	918.10	731.90	621.06	661.31	679.51
Transportation and Handling cost/ton	1037.77	933.19	884.37	901.75	910.02
Other Expenses/ton	685.79	636.39	666.10	672.27	678.43
EBITDA/ton	938.84	1495.10	1424.41	1459.98	1535.75

Source: Company, KRChoksey Research

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Q4FY17 Result Snapshot

Particulars (Mn)	Q4FY17	Q3FY16	Q4FY16	Q-o-Q	Y-o-Y
Total Sales	11900	10917	11182	9.0%	6.4%
Total Expenditure	9375	8168	8051	14.8%	16.4%
Cost of Raw Materials	1962	1649	1542	19.0%	27.3%
Employee Cost	673	698	631	-3.6%	6.6%
Power and Fuel Costs	1406	1283	1302	9.6%	8.0%
Transportation costs	2052	1771	1857	15.9%	10.5%
Other expenses	1644	1283	1180	28.1%	39.4%
Excise duty paid on sales	1638	1484	1540	10.4%	6.4%
PBIDT (Excl OI)	2525	2748	3131	-8.1%	-19.3%
EBITDA Margins (%)	21.2%	25.2%	28.0%	-395bps	-678bps
Depreciation	664	661	1031	0.4%	-35.6%
Other income	58	215	383	-73.2%	-84.9%
EBIT	1919	2302	2483	-16.6%	-22.7%
Interest	201	261	450	-23.0%	-55.3%
EBT	1718	2041	2033	-15.8%	-15.5%
Tax	373	522	209	-28.5%	78.8%
PAT	1345	1519	1824	-11.5%	-26.3%
PAT Margin (%)	11.3%	13.9%	16.32%	-261bps	-502bps
EPS	5.65	6.38	7.66	-11.5%	-26.3%

Source: Company, KRChoksey Research

Key Result highlights:

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Key Financials

Consolidated Profit & Loss (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Total Sales	41923.60	41394.10	45820.20	51255.49	56874.05
COGS	6805.40	5888.20	6865.90	7382.08	7993.74
Employee Expenses	2292.90	2594.00	2785.20	3002.08	3212.22
Power and fuel	7040.00	5269.70	5184.60	5962.29	6677.76
Transportation cost	7957.60	6719.00	7382.70	8129.99	8942.99
Other expenses	5258.60	4582.00	5560.60	6061.05	6667.16
Excise duty	5370.10	5576.50	6148.90	6555.06	7287.92
EBITDA	7199.00	10764.70	11890.96	13162.94	15092.26
Other income	849.20	754.70	392.30	400.00	400.00
D&A	2512.40	3052.60	2668.70	2361.00	2477.20
EBIT	5535.80	8466.80	9614.56	11201.94	13015.06
Interest Expense	1951.40	1837.60	1048.80	875.32	560.00
PBT	3584.40	6629.20	8565.76	10326.63	12455.06
Tax	1147.40	1316.60	2025.00	3097.99	3736.52
Effective tax rate	32%	20%	24%	30%	30%
PAT	2437.00	5312.60	6540.76	7228.64	8718.55
Share of profit in associates	3.80	0.90	12.40	12.40	12.40
Minority interest	28.10	140.60	97.70	97.70	97.70
NPAT	2461.30	5452.30	6626.06	7313.94	8803.85

Source: Company, KRChoksey Research

Consolidated Balance Sheet (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	238.10	238.10	238.10	238.10	238.10
Reserves	26018.10	30494.60	36406.36	43006.00	51095.54
Net worth	26256.20	30732.70	36644.46	43244.10	51333.64
Total loans	27341.60	22227.20	15327.20	12504.50	8000.00
Capital Employed	65839.10	66869.40	66243.41	69982.02	73611.33
Net block	48824.60	49323.20	48534.07	47716.21	49112.37
Inventories	5216.50	5501.70	5765.70	6710.98	7267.03
Sundry debtors	3802.20	4684.80	5550.00	5681.06	6316.20
Sundry creditors	2295.80	2092.50	2562.20	2622.85	2888.00
Cash and bank	628.60	911.30	1273.47	3964.76	4336.00
Total Current assets	11184.60	13037.80	13763.33	17713.56	19424.09
Total Current liabilities	4218.40	3379.10	4924.87	5265.53	5788.56
Net current assets	69662.00	96587.00	88384.63	124480.24	136355.23
Capital Deployed	65839.10	66869.40	66243.41	69982.02	73611.33

Source: Company, KRChoksey Research

Consolidated Cash Flow (INR Mn)	FY15	FY16	FY17	FY18E	FY19E
PAT	2437.00	5312.60	6540.76	7228.64	8718.55
Depreciation & Amortization	2512.40	3052.60	2668.70	2361.00	2477.20
(Incr)/Decr in Working Capital	1817.30	664.60	381.75	-1304.65	-982.30
Cash Flow from Operating	9315.50	10674.20	9966.64	8026.77	9393.29
(Incr)/ Decr in Gross PP&E	-4427.80	-2720.10	-1879.57	-1543.14	-3873.36
Cash Flow from Investing	-4770.60	-2336.40	-1067.53	-1042.63	-3373.36
(Decr)/Incr in Debt	5299.20	11166.50	-6887.60	-2822.70	-4504.50
Cash Flow from Financing	-4363.30	-8080.50	-8610.33	-4363.35	-5719.19
Incr/(Decr) in Balance Sheet Cash	181.60	257.30	288.77	2620.78	300.74
Cash at the Start of the Year	404.80	586.40	914.20	1273.47	3964.76
Other bank balances	45.10	70.50	70.50	70.50	70.50
Cash at the End of the Year	631.50	914.20	1273.47	3964.76	4336.00

Source: Company, KRChoksey Research

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Ratio Analysis	FY15	FY16	FY17	FY18E	FY19E
EBITDA/ton	938.84	1,495.10	1,424.41	1,459.98	1,535.75
Volume (mn tons)	7.67	7.2	8.35	9.02	9.83
Growth (%)					
Total Sales	13.81%	-1.26%	10.69%	11.86%	10.96%
EBITDA	28.03%	49.53%	10.46%	10.70%	14.66%
PAT	114.87%	121.52%	21.53%	10.38%	20.37%
Profitability (%)					
EBITDA Margin	17.17%	26.01%	25.95%	25.68%	26.54%
NPM	5.87%	13.17%	14.46%	14.27%	15.48%
Return ratios					
ROE	9.59%	19.60%	18.08%	16.91%	17.15%
ROCE	9.60%	15.29%	14.51%	16.01%	17.68%
Per share data					
EPS	10	22.9	27.81	30.69	36.94
BPS	110.28	129.09	153.92	181.64	215.62
Valuations (x)					
P/E (x)	30.35	17.53	24.38	22.71	18.87
P/BV (x)	2.76	3.1	0.19	0.16	0.14
EV/EBITDA (x)	13.78	14.73	14.76	13.26	11.24
EV/Ton (\$)	116.79	186.68	206.62	160.38	155.9
Net Debt/EBITDA	3.71	1.98	1.18	0.65	0.24
Net Debt/Equity	1.02	0.69	0.38	0.2	0.07
Interest Coverage	2.84	4.61	9.17	12.8	23.24

Source: Company, KRChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
31-May-17	698	805	BUY	Buy	More than 15%
08-Feb-17	680	772	ACCUMULATE	Accumulate	5% – 15%
09-Jan-17	580	730	BUY	Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

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