Institutional Equity Research

Ramco Cements

Cement | India

4QFY17 Result Update | May 30, 2017

CMP* (Rs)	690
Upside/ (Downside) (%)	10
Bloomberg Ticker	TRCL IN
Market Cap. (Rs bn)	164
Free Float (%)	58
Shares O/S (mn)	238

BUY

Target Price: Rs760

Dismal Operating Performance; Better Prospects Ahead

Despite strong sales volume, Ramco Cements (RCL) has reported a lower-than-estimated operating performance in 4QFY17 primarily due to sharp surge in operating cost per tonne to Rs3,398 (+8.5% YoY and +1.1% QoQ). Its EBITDA declined by 23% YoY and 9% QoQ to Rs2.4bn vs. our estimate of Rs2.7bn. While Power & Fuel and Freight costs remained in comfortable zone, a substantial rise in other expenditures/tonne (+39% YoY and +28% QoQ) and RM cost/ tonne (+16% YoY and 4% QoQ) led to higher operating cost. Notably, an additional expenditure of Rs170mn towards A&P and Rs58mn provisioning towards impairment of assets arising out of kiln up-gradation led to higher other expenditures. Cement EBITDA/tonne stood at Rs1,052 vs. Rs1,493 in 4QFY16 and Rs1,319 in 3QFY17. EBITDA margins stood at 23.6% vs. 32.3% in 4QFY16. Notably, RCL has pared down its debt by Rs6.9bn in FY17 (Rs1.6bn in 4QFY17) from internal accruals, which resulted in lower finance cost in 4QFY17 (-55% YoY and -23% QoQ). **Trimming down our EBITDA estimate by 12% and 8% for FY18E and FY19E, respectively to factor in subdued realizations, we continue to maintain our BUY recommendation on the stock with a revised Target Price of Rs760.**

Sales Volume Remains Impressive

RCL continued to report robust growth in sales volume for fifth successive quarter. Meaningful demand up-tick in Southern states especially during Mar'17 and venturing into new markets led to 9.5% YoY and 14.5% QoQ growth in RCL's sales volume to 2.28mnT (including 0.03mnT exports). RCL's sales volume (including exports of 0.14mnT) grew by 19% YoY to 8.35mnT in FY17.

Subdued Realizations & Higher Other Expenses Drag Operating Profit

A substantial spike in other expenditures and increase in raw materials cost dragged RCL's quarterly operating performance. Its EBITDA declined by 23% YoY and 9% QoQ to Rs2.4bn vs. our estimate of Rs2.7bn. Notably, an additional expenditure of Rs170mn towards A&P and Rs58mn provisioning towards impairment of assets arising out of kiln up-gradation led to higher other expenditures. EBITDA/tonne stood at Rs1,052 vs. Rs1,493 in 4QFY16 and Rs1,319 in 3QFY17. NCR declined by 3.7% YoY and 5.0% QoQ to Rs4,450/tonne.

Outlook &Valuation

We continue to prefer RCL in cement space mainly owing to: (a) being one of the lowest cost producers; (b) consistent de-leveraging of balance sheet; (c) strong brand equity; (d) likely improvement in its utilizations; and (e) better than industry's return ratios. We increase our EV/EBITDA multiple from 11x to 12x mainly owing to superior profitability and geographical expansion. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs760.**

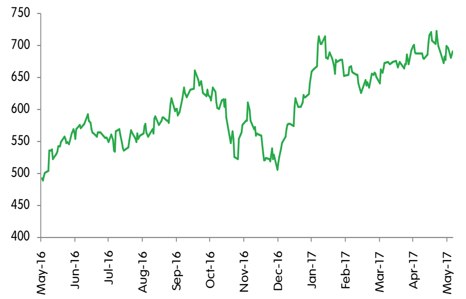
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	35,872	38,568	42,526	49,458
EBITDA	10,504	10,836	11,967	14,425
Net Profit	5,583	6,493	6,914	9,966
EPS (Rs)	23.5	27.3	29.0	41.9
DPS (Rs)	3.0	3.0	4.0	5.0
P/E (x)	29.4	25.3	23.8	16.5
P/B (x)	5.3	4.4	3.8	3.2
EV/EBITDA (x)	17.6	16.5	14.3	11.2
RoE (%)	19.5	19.0	17.2	21.0
Divi. Yield (%)	0.4	0.4	0.6	0.7

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	1.3	5.6	41.2
Relative to Nifty	(2.2)	(2.5)	23.2

Shareholding Pattern (%)	Dec'16	Mar'17
Promoter	42.3	42.3
Public	57.7	57.7

1 Year Stock Price Performance



*Note: * CMP as on May 30, 2017*

Research Analyst: Binod Modi
Contact: 022 3320 1097
Email: binod.modi@relianceada.com

Ramco Cements

Cement | India

CMP* (Rs)	690
Upside/ (Downside) (%)	10
Bloomberg Ticker	TRCL IN

BUY

Target Price: Rs760

Risks to the View

- Government's failure to revive infrastructure projects
- A substantial increase in operating costs.

Exhibit 1: Quarterly Performance

(Rs mn)	4QFY17	4QFY16	% yoy	3QFY17	% qoq	FY17	FY16	% yoy
Net Sales	10,132	9,616	5.4	9,308	8.9	38,568	35,073	10.0
Expenses								
Cost of Materials Consumed	1,832	1,561	17.3	1,615	13.4	6,717	5,789	16.0
Change in WIP	130	(19)	(770.1)	34	280.1	149	99	50.3
% sales	19.4	16.0		17.7		17.8	16.8	
Employee Benefit expenses	673	631	6.6	698	(3.6)	2,777	2,587	7.4
% sales	6.6	6.6		7.5		7.2	7.4	
Transport and Handling	2,052	1,857	10.5	1,771	15.9	7,383	6,719	9.9
% sales	20.3	19.3		19.0		19.1	19.2	
Power & Fuel	1,406	1,301	8.0	1,283	9.6	5,185	5,270	(1.6)
% sales	13.9	13.5		13.8		13.4	15.0	
Other Expenditures	1,644	1,180	39.4	1,283	28.1	5,521	4,553	21.3
% sales	16.2	12.3		13.8		14.3	13.0	
Total Expenditures	**7,737**	**6,511**	**18.8**	**6,685**	**15.7**	**27,731**	**25,017**	**10.9**
Operating costs/tonne (Rs)	**3,398**	**3,130**	**8.5**	**3,362**	**1.1**	**3,311**	**3,460**	**(4.3)**
EBITDA	2,396	3,105	(22.8)	2,623	(8.7)	10,836	10,056	7.8
EBITDA margins (%)	23.6	32.3	(26.8)	28.2		28.1	28.7	(2.0)
EBITDA/tonne (Rs)	1,052	1,493	(29.5)	1,319	(20.3)	1,294	1,391	(7.0)
Depreciation	664	1,031	(35.6)	661	0.4	2,655	3,048	(12.9)
Finance Costs	201	450	(55.3)	261	(23.0)	1,035	1,819	(43.1)
Other Income	188	409	(54.2)	340	(44.8)	1,356	1,544	(12.2)
PBT	**1,718**	**2,033**	**(15.5)**	**2,040**	**(15.8)**	**8,502**	**6,734**	**26.3**
Tax	373	209	78.8	522	(28.5)	2,009	1,312	53.1
% PBT	21.7	10.3		25.6		23.6	19.5	
PAT	1,345	1,825	(26.3)	1,519	(11.5)	6,493	5,422	19.8
Extraordinary Items	0	0		0		0	0	
Profit for the period	**1,345**	**1,825**	**(26.3)**	**1,519**	**(11.5)**	**6,493**	**5,422**	**19.8**
Net Margins	13.3	19.0		16.3		16.8	15.5	
EPS (Rs)	5.7	8.6	(34.2)	6.4	(11.5)	27.3	22.8	19.8

Source: Company, RSec Research

Ramco Cements

Cement | India

CMP* (Rs)	690
Upside/ (Downside) (%)	10
Bloomberg Ticker	TRCL IN

BUY

Target Price: Rs760

Exhibit 2: Revised v/s Old Estimates

	FY18E			FY19E		
	Old	**Revised**	**% change**	**Old**	**Revised**	**% change**
Volume (mnT)	9.16	9.10	(0.6)	10.49	10.35	(1.3)
Gross Realization (Rs/tonne)	5,450	5,358	(1.7)	5,600	5,572	(0.5)
Sales (Rs mn)	45,344	42,526	(6.2)	53,397	49,458	(7.4)
EBITDA (Rs mn)	13,601	11,967	(12.0)	15,658	14,425	(7.9)
EBITDA margins (%)	30.0	28.1		29.3	29.2	
PAT (Rs mn)	7,863	6,914	(12.1)	10,534	9,966	(5.4)
PAT margins (%)	17.3	16.3		19.7	20.1	
EPS (Rs)	33.0	29.0	(12.1)	44.3	41.9	(5.4)

Source: RSec Research

Institutional Equity Research

Ramco Cements

Cement | India

CMP* (Rs)	690
Upside/ (Downside) (%)	10
Bloomberg Ticker	TRCL IN

BUY

Target Price: Rs760

Profit & Loss

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
Income	**35,872**	**38,568**	**42,526**	**49,458**
% yoy growth	(0.2)	7.5	10.3	16.3
Total Cost	**25,368**	**27,731**	**30,560**	**35,033**
RM Consumed	5,943	6,866	7,515	8,209
Exmployee Costs	2,592	2,777	2,977	3,363
Power & Fuel	5,270	5,185	6,257	7,454
Freight Costs	7,493	8,161	9,520	11,341
Other Exps.	4,070	5,521	4,290	4,666
EBITDA	**10,504**	**10,836**	**11,967**	**14,425**
EBITDA Margin (%)	29.3	28.1	28.1	29.2
Depreciation & Amortization	2,670	2,655	2,843	1,432
Finance Costs	1,802	1,035	945	646
Other Income	999	1,356	1,424	1,495
Extraordinary Items	-	-	-	-
PBT	**7,030**	**8,502**	**9,602**	**13,841**
Tax	1,448	2,009	2,689	3,876
% Tax	20.6	23.6	28.0	28.0
Net Profit- Reported	**5,583**	**6,493**	**6,914**	**9,966**
YoY Growth (%)	130.3	16.3	6.5	44.1
Net Profit- Adjusted	**5,583**	**6,493**	**6,914**	**9,966**
Net Profit Margin (%)	15.6	16.8	16.3	20.1

Ramco Cements

Cement | India

CMP* (Rs)	690
Upside/ (Downside) (%)	10
Bloomberg Ticker	TRCL IN

BUY

Target Price: Rs760

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
LIABILITIES				
Share Capital	238	238	238	238
Reserves & Surplus	30,688	37,177	42,945	51,479
Total Shareholder's funds	**30,926**	**37,415**	**43,183**	**51,717**
Long Term Borrowings	10,586	5,036	4,000	3,000
Deferred Tax Liability	8,521	7,281	7,281	7,281
Other Long Term Liability	5,203	115	127	145
Long Term Provisions	172	36	40	46
Total LT Liabilities	**24,482**	**12,469**	**11,448**	**10,472**
Short Term Borrowings	7,017	6,345	4,345	2,345
Trade Payables	2,091	2,558	2,763	3,167
Other Current Liabilities	5,471	10,837	11,942	13,691
Short Term Provisions	266	465	513	588
Total Current Liabilities	**14,844**	**20,205**	**19,563**	**19,791**
Total Liabilities	**70,252**	**70,089**	**74,194**	**81,979**
ASSETS				
Fixed Assets				
Net Block	49,049	49,424	47,781	47,349
CWIP	1,383	974	1,000	1,000
Intabgible Assets under development	85	228	228	228
Non Current Investments	3,654	3,890	3,890	3,890
Long Term Loans & Advances	3,024	561	619	719
Other Non-Current Assets	36	826	911	1,059
Total	**57,231**	**55,903**	**54,428**	**54,245**
Inventories	5,490	5,754	6,279	7,199
Trade Receivables	4,685	5,549	6,119	7,116
Cash and Bank Balance	908	381	4,609	10,211
ST Loans and Advances	1,921	273	301	350
Other Current Assets	17	2,229	2,458	2,859
Total Current Assets	**13,021**	**14,186**	**19,765**	**27,734**
Total Assets	**70,252**	**70,089**	**74,194**	**81,979**

Ramco Cements

Cement | India

CMP* (Rs)	690
Upside/ (Downside) (%)	10
Bloomberg Ticker	TRCL IN

BUY

Target Price: Rs760

Cash Flow Statement

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT	7,030	8,502	9,602	13,841
(Profit)/Loss on sale of assets	4	0	0	0
Depreciation	2,670	2,655	2,843	1,432
Interest and dividend received	(103)	0	0	0
Rent Receipt	(76)	0	0	0
Interest Paid	1,749	1,035	945	646
Amortization of Intangible Assets	200	0	0	0
Others	(71)	0	0	0
Operating profit before WC changes	**11,403**	**12,192**	**13,390**	**15,920**
Trade and Othe receivables	(25)	245	(969)	(1,696)
Earmarked balances with Banks	(24)	0	0	0
Inventories	(284)	(264)	(525)	(919)
Trade Payables	1,000	809	1,373	2,252
Cash generated from operations	**12,070**	**12,982**	**13,270**	**15,556**
Direct Taxes Paid	(1,442)	(3,248)	(2,689)	(3,876)
Extraordinary Itmes	0	0	0	0
Net Cash from Operating activities	**10,628**	**9,734**	**10,581**	**11,681**
Purchase of Fixed Assets	(2,500)	(2,764)	(1,226)	(1,000)
Sale fo Fixed Assets	10	0	0	0
Interest and dividend received	111	0	0	0
Purchase of investments	(56)	(236)	0	0
Rent receipts from investment property	76	0	0	0
Redemption of investments	0	0	0	0
Others	33	855	0	0
Net cash in Investing activities	**(2,327)**	**(2,145)**	**(1,226)**	**(1,000)**
Borrowings (net)	(5,100)	(6,221)	(3,036)	(3,000)
Payment of dividend and tax threron	(1,291)	(859)	(1,146)	(1,432)
Interest paid	(1,621)	(1,035)	(945)	(646)
Net cash from financing activities	**(8,011)**	**(8,116)**	**(5,127)**	**(5,078)**
Net Inc/(Dec) in cash and cash equivalent	290	(527)	4,228	5,602
Opening Cash	619	908	381	4,609
Closing Cash	908	381	4,609	10,211

Ramco Cements

Cement | India

CMP* (Rs)	690
Upside/ (Downside) (%)	10
Bloomberg Ticker	TRCL IN

BUY

Target Price: Rs760

Key Ratio

Y/E Mar (Rs mn)	FY16	FY17E	FY18E	FY19E
Valuation Ratio (x)				
P/E	29.4	25.3	23.8	16.5
P/CEPS	19.9	18.0	16.8	14.4
P/BV	5.3	4.4	3.8	3.2
EV/EBIDTA	17.6	16.5	14.3	11.2
EV/Sales	5.2	4.6	4.0	3.3
EV/tonne (USD)	205	198	189	179
Dividend Payout (%)	12.8	11.0	13.8	11.9
Dividend Yield (%)	0.4	0.4	0.6	0.7
Per Share Data (Rs)				
EPS (Basic)	23.5	27.3	29.0	41.9
EPS (Diluted)	23.5	27.3	29.0	41.9
CEPS	34.7	38.4	41.0	47.9
DPS	3.0	3.0	4.0	5.0
Book Value	130	157	181	217
EBITDA/tonne	1,461	1,298	1,315	1,393
Returns (%)				
RoCE	12.5	13.6	14.6	18.6
RoE	19.5	19.0	17.2	21.0
Turnover ratios (x)				
Asset Turnover (Gross block)	0.5	0.5	0.5	0.6
Inventory (days)	79	76	75	75
Receivables (days)	48	53	53	53
Payables (days)	30	34	33	33
WCC (days)	97	95	95	95

Institutional Equity Research

Ramco Cements

Cement | India

CMP* (Rs)	690
Upside/ (Downside) (%)	10
Bloomberg Ticker	TRCL IN

BUY

Target Price: Rs760

Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in . RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/ or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services.RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/ strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.