

The Ramco Cements Ltd.



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Capital deployment in capacity expansion !

CMP INR 686	Target INR 805	Potential Upside 17.3%	Market Cap (INR mn) 163,309	Recommendation BUY	Sector Cement
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Result highlights

- Total Sales stood at INR 11888 mn which was up by 6.7% Y-O-Y and flattish Q-O-Q. Top-line stood marginally below our expectations of INR 12220 mn on account of lower than anticipated realization growth on Y-O-Y basis.
- EBITDA stood at INR 2904 mn which was down by 2% Y-O-Y and up 15% Q-O-Q and EBITDA margin stood at 28.2% as against 30.7% in Q1FY17 and 24.6% in Q4FY17. EBITDA was marginally above our estimates of INR 2800 mn while EBITDA/ton during the quarter stood at INR 1351.
- PAT stood at INR 1558 mn which was flattish Y-O-Y and up 15.9% Q-O-Q while PAT Margin stood at 15.1%. Net profit was primarily below our estimates of INR 1750 mn due to higher depreciation and lower other income.

MARKET DATA

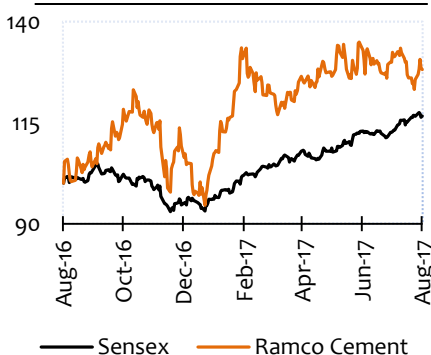
Shares outs (mn)	238
EquityCap (INR mn)	238
Mkt Cap (INR mn)	163309
52 Wk H/L (INR)	750/479
Volume Avg (3m K)	242.7
Face Value (INR)	1
Bloomberg Code	TRCL IN

KEY FINANCIALS

Particulars (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	41923.60	41394.10	45820.20	51255.49	57386.66
EBITDA	7199.00	10764.70	11890.96	13162.94	15599.85
APAT	2461.30	5452.30	6626.06	7219.50	8921.19
AEPS	10.00	22.90	27.81	30.30	37.44
P/E (x)	30.35	17.53	24.38	22.64	18.32
EV/EBITDA (x)	13.78	14.73	14.76	13.35	11.05

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Higher revenue visibility on account of capacity expansion :

The cement sales volume during Q1FY18 stood at 2.15 MT as against our estimates of 2.1 MT and marginally grew by 3.8% Y-O-Y. Demand in South was severely impacted on account of effects of droughts and shortage of sand in Tamil Nadu. However, volumes for the company grew in Eastern region off-setting the sluggish demand scenario in South. The company laid-out a capex plan to increase their grinding capacity in Vizag and Kolaghat from 0.9 MTPA to 2 MTPA and set up a new grinding unit of 0.9 MTPA in Odisha. This would lead to a capacity hike in the overall satellite grinding units from 4 MTPA to 7.1 MTPA. Although we believe that the capacity expansion leads to higher revenue visibility; we reckon that the capex will materialize and elevate revenues from FY20E onwards.

We estimate the company should deliver a volume CAGR of 9% over FY17-FY19; increasing from 8.35 MT to 9.9 MT factoring in higher dispatches from current capacity in Eastern region.

Margins to remain range-bound; financial de-leveraging to continue :

In Q1FY18, the company posted EBITDA of INR 2904 mn as against our estimates of INR 2800 mn. EBITDA/ton during the quarter stood at INR 1351 as against INR 1432 in Q1FY17. We estimate EBITDA/ton to surge to INR 1573 by FY19 as against INR 1424 in FY17 on account of a.) continuous efficiency improvement measures, b.) higher operating leverage and c.) stability in cement prices on the back of improved demand.

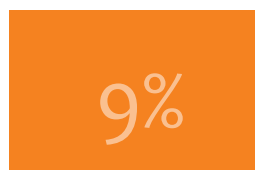
Likewise, we expect financial de-leveraging to continue despite capacity enhancement. We reckon FCFE to accumulate to the tune of INR 7768 mn over FY17-FY19 which will result in debt reduction from INR 15327 mn to INR 10000 mn over the same period.

MARKET INFO

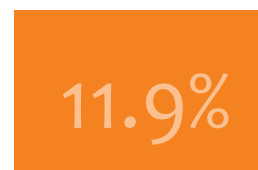
SENSEX	32325
NIFTY	10066

SHARE HOLDING PATTERN (%)

Particulars	Jun 17	Mar 17	Dec 16
Promoters	42.67	42.3	42.3
FIIIs	14.53	14.52	14.44
DIIIs	18.48	18.88	25.26
Others	24.32	24.3	18
Total	100	100	100



Volume CAGR between FY 17 and FY 19E



Revenue CAGR between FY 17 and FY 19E

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Valuation and Outlook:

The company has laid out a capex plan to hike capacity of its satellite grinding units from 4 MTPA to 7.1 MTPA. Further, this will result into strategic widening of presence in the fast growing Eastern region. We believe that the company will continue its financial de-leveraging despite the outflow of INR 10950 mn for capacity addition.

With an expected net debt of INR 9058 mn by FY19E, the company trades at an EV/EBITDA of 11.05x and EV/ton of \$158.

On account of a.) higher revenue visibility, b.) efficient cost structure, c.) financial de-leveraging, and d.) robust return ratios; we value The Ramco Cements Ltd at an EV/EBITDA of **13x** on FY19E arriving at a target price of **INR 805** translating into a potential upside of **17.3%** from CMP of **INR 686**. **Maintain BUY.**

Q1FY18 Result update

Particulars (mn)	Q1FY18	Q4FY17	Q1FY17	Q-O-Q	Y-O-Y
Total Sales	11888	11900	11144	-0.1%	6.7%
Total Expenditure	8983	9375	8179	-4.2%	9.8%
Cost of Raw Materials	1591	1962	1674	-18.9%	-5.0%
Employee Cost	749	673	707	11.4%	6.0%
Power and Fuel Costs	1681	1406	1293	19.6%	30.1%
Transportation costs	1999	2052	1772	-2.6%	12.9%
Other expenses	1363	1644	1233	-17.1%	10.5%
Excise duty	1600	1638	1500	-2.3%	6.6%
PBIDT (Excl OI)	2904	2525	2965	15.0%	-2.0%
EBITDA Margins (%)	28.2%	24.6%	30.7%	362bps	-251bps
Depreciation	720	664	663	8.4%	8.6%
EBIT before Exceptional Item	2184	1861	2302	17.4%	-5.1%
Exceptional Items	0	0	0	-	-
Other income	52	58	96	-9.0%	-45.2%
EBIT	2237	1919	2397	16.6%	-6.7%
Interest	155	201	291	-23.1%	-47.0%
EBT	2082	1718	2106	21.2%	-1.1%
Tax	524	373	547	40.5%	-4.1%
PAT	1558	1345	1559	15.9%	-0.1%
PAT Margin (%)	15.1%	13.1%	16.2%	204bps	-102bps
EPS	6.60	5.70	6.61	15.9%	-0.1%

Source: Company, KRChoksey Research

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Key Financials

Profit & Loss (INR mn)	FY15	FY16	FY17	FY18E	FY19E
Total Sales	41923.60	41394.10	45820.20	51255.49	57386.66
COGS	6805.40	5888.20	6865.90	7382.08	8073.80
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	8861.69
Other expenses	5258.60	4582.00	5560.60	6061.05	6606.55
Excise duty	5370.10	5576.50	6148.90	6555.06	7354.78
EBITDA	7199.00	10764.70	11890.96	13162.94	15599.85
Other income	849.20	754.70	392.30	400.00	400.00
D&A	2512.40	3052.60	2668.70	2495.91	2677.14
EBIT	5535.80	8466.80	9614.56	11067.03	13322.71
Interest Expense	1951.40	1837.60	1048.80	875.32	700.00
PBT	3584.40	6629.20	8565.76	10191.71	12622.71
Tax	1147.40	1316.60	2025.00	3057.51	3786.81
Effective tax rate	32%	20%	24%	30%	30%
PAT	2437.00	5312.60	6540.76	7134.20	8835.89
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	7219.50	8921.19

Source: Company, KRChoksey Research

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	42911.56	51118.45
Net worth	26256.20	30732.70	36644.46	43149.66	51356.55
Total loans	27341.60	22227.20	15327.20	12504.50	10000.00
Capital Employed	65839.10	66869.40	66243.41	69887.58	75636.69
Net block	48824.60	49323.20	48534.07	52078.45	55442.40
Inventories	5216.50	5501.70	5765.70	6710.98	7339.82
Sundry debtors	3802.20	4684.80	5550.00	5681.06	6374.14
Sundry creditors	2295.80	2092.50	2562.20	2622.85	2916.93
Cash and bank	628.60	911.30	1273.47	132.43	941.77
Total Current assets	11184.60	13037.80	13763.33	13881.23	16174.40
Total Current liabilities	4218.40	3379.10	4924.87	5265.53	5889.97
Net current assets	69662.00	96587.00	88384.63	86156.97	102844.24
Capital Deployed	65839.10	66869.40	66243.41	69887.58	75636.69

Source: Company, KRChoksey Research

Cash Flow (INR mn)	FY15	FY16	FY17	FY18E	FY19E
PAT	2437.00	5312.60	6540.76	7134.20	8835.89
Depreciation & Amortization	2512.40	3052.60	2668.70	2495.91	2677.14
(Incr)/Decr in Working Capital	1817.30	664.60	381.75	-1304.65	-1061.13
Cash Flow from Operating	9315.50	10674.20	9966.64	8230.35	10037.05
(Incr)/ Decr in Gross PP&E	-4427.80	-2720.10	-1879.57	-6040.29	-6041.09
Cash Flow from Investing	-4770.60	-2336.40	-1067.53	-5071.50	-5427.56
(Decr)/Incr in Debt	5299.20	11166.50	-6887.60	-2822.70	-2504.50
Cash Flow from Financing	-4363.30	-8080.50	-8610.33	-4370.40	-3870.64
Incr/(Decr) in Balance Sheet Cash	181.60	257.30	288.77	-1211.54	738.84
Cash at the Start of the Year	404.80	586.40	914.20	1273.47	132.43
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	132.43	941.77

Source: Company, KRChoksey Research

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Operating metrics (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	814.10
Employee cost/ton	299.02	360.28	333.64	332.98	323.90
Power and fuel cost/ton	918.10	731.90	621.06	661.31	673.34
Transportation and Handling cost/ton	1037.77	933.19	884.37	901.75	893.55
Other Expenses/ton	685.79	636.39	666.10	672.27	666.16
EBITDA/ton	938.84	1495.10	1424.41	1459.98	1572.97

Source: Company, KRChoksey Research

Ratio Analysis	FY15	FY16	FY17	FY18E	FY19E
EBITDA/ton	938.84	1495.10	1424.41	1459.98	1572.97
Volume (mn tons)	7.67	7.20	8.35	9.02	9.92
Growth (%)					
Total Sales	13.81%	-1.26%	10.69%	11.86%	11.96%
EBITDA	28.03%	49.53%	10.46%	10.70%	18.51%
PAT	114.87%	121.52%	21.53%	8.96%	23.57%
Profitability (%)					
EBITDA Margin	19.69%	30.05%	29.97%	29.45%	31.18%
NPM	6.73%	15.22%	16.70%	16.15%	17.83%
Return ratios					
ROE	9.59%	19.60%	18.08%	16.73%	17.37%
ROCE	9.60%	15.29%	14.51%	15.84%	17.61%
Per share data					
EPS	10.00	22.90	27.81	30.30	37.44
BPS	110.28	129.09	153.92	181.24	215.71
Valuations (x)					
P/E (x)	30.35	17.53	24.38	22.64	18.32
P/BV (x)	2.76	4.47	4.40	3.78	3.18
EV/EBITDA (x)	13.78	14.73	14.76	13.35	11.05
EV/Ton (\$)	116.79	186.68	206.62	161.50	158.45
Net Debt/EBITDA	3.71	1.98	1.18	0.94	0.58
Net Debt/Equity	1.02	0.69	0.38	0.29	0.18
Interest Coverage	2.84	4.61	9.17	12.64	19.03

Source: Company, KRChoksey Research

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Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
07-Aug-17	686	805	BUY	Buy	More than 15%
31-May-17	698	805	BUY	Accumulate	5% – 15%
08-Feb-17	680	772	ACCUMULATE	Hold	0 – 5%
09-Jan-17	580	730	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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