INDIA

BUY

Ramco Cements

CENTRUM

Cement

Result Update 3 November 2017

Good show despite weak demand in south; Retain Buy

We maintain our Buy rating on Ramco Cements (TRCL) and with a revised TP to Rs790. During Q2FY18, despite weak demand in Tamil Nadu and Kerala markets, TRCL delivered 6% YoY volume growth and unitary EBIDTA of Rs1229/MT (though down 21% YoY on its peak performance last year). We remain bullish on the company owing to strong demand outlook for AP/Telangana and east markets, and expected recovery in Tamil Nadu and Kerala markets.

- **Despite weak demand in south, TRCL delivered 6% YoY volume growth:** In Q2FY18, TRCL capitalised on the strong demand in the AP/T and eastern markets (~35% of its sales mix) which offset sharp demand erosion in TRCL's home markets of Tamil Nadu & Kerala (~50% of its total sales). As per the management, TRCL's sales mix increased 400bps QoQ towards south markets in Q2 (higher price market vs east). This led to 3% QoQ NSR increase (despite marginal price decline in south QoQ) and flat NSR YoY. Wind-power sales accounted for 3%/10% of Q2FY18 revenue/EBITDA.
- **Cost inflation moderated unitary EBIDTA to Rs1229/MT:** TRCL's opex rose 10% YoY amid sharp increase in pet-coke prices and rising diesel prices. These drove unitary input cost to rise 15% YoY. The management guided that its cost inflation has been gradual owing to its steady accumulation of pet-coke inventory. Logistics cost also rose 11% YoY, driven by higher diesel prices and increased lead distance. Total fixed cost per MT also rose 1% YoY thus negating operating leverage gains. Thus, amid flattish NSR YoY, unitary EBITDA moderated 21% YoY to Rs1229 (16% ahead of our estimates). However, despite this fall, TRCL delivered one the best EBIDTA margins in the industry. We expect TRCL's margins to expand further as sales recover in TN and Kerala markets (which are high margin markets for TRCL). Lower debt on books also led to 39% YoY interest cost reduction.
- **Improving demand outlook for south should bode well for TRCL**: Cement demand outlook in AP/T and east market remains strong. As per our lateral checks, sand availability in Tamil Nadu is expected to improve over next 2-3 months, boosting pent-up demand. Even Kerala market is expected to see demand recovery during H2FY18. These should boost regional cement demand in TRCL's core market. Backed by strong balance sheet, TRCL has been opportunistically accumulating fuel inventory to insulate cost spike. We trim our EBITDA estimates for FY18/19E by 7%/2% to factor in sales decline in the high margin TN and Kerala markets. We have also included other operating income in revenues, in line with other companies, leading to revision in our revenue/ EBITDA numbers for TRCL.
- **Reiterate BUY:** We expect TRCL's strong cashflow to fund its announced capex and to result in cumulative free cashflow of Rs11bn during FY18-19 (net of interest outgo), thus further boosting its balance sheet. We maintain our Buy rating, with a revised TP of Rs790 (12x FY19E EBITDA). Key downside risks: lower-than-expected demand and price growth and a sharp spike in energy and freight costs.

Y/E Mar (Rsmn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)	Q2FY18E	Variance %
Net Sales	10,664	10,157	5.0	10,288	3.7	10,060	6.0
Op. cost	7,726	6,631	16.5	7,384	4.6	7,387	4.6
EBITDA	2,939	3,526	(16.6)	2,904	1.2	2,673	9.9
EBITDA margin (%)	27.6	34.7	(716)bps	28.2	(67)bps	26.6	99bps
Depreciation	718	667	7.7	720	(0.3)	720	(0.3)
Interest	173	282	(38.7)	155	11.8	140	23.4
Other Income	72	60	20.7	52	38.0	20	261.5
PBT	2,120	2,637	(19.6)	2,082	1.8	1,833	15.7
Taxes paid	512	567	(9.8)	524	(2.4)	495	3.4
Adjusted PAT	1,609	2,070	(22.3)	1,558	3.2	1,338	20.2

Source: Company, Centrum Research Estimate, Standalone Financials

Target Price	Rs790
CMP*	Rs721
Upside	10%
Previous Target	Rs820
Previous Rating	Buy

Price Performance (%)*

	1M	6M	1Yr
TRCL IN	4.0	4.9	19.7
NIFTY	6.0	12.2	23.2

Key Data	
Bloomberg Code	TRCL
Curr Shares O/S (mn)	238.1
Diluted Shares O/S(mn)	238.1
Mkt Cap (Rsbn/USDbn)	171.8/2.7
52 Wk H / L (Rs)	770/472.8
5 Year H / L (Rs)	770/135.2
Daily Vol. (3M NSE Avg.)	275445

*as on 3 November 2017; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sep-17	Jun-17	Mar-17	Dec-16
Promoter	42.8	42.7	42.3	42.3
FIIs	14.8	14.5	14.5	14.4
Dom. Inst.	17.2	18.5	18.9	18.3
Public & Others	25.2	24.3	24.3	24.9

Source: BSE, *as on 3 November 2017

Operating trends - Cement

	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Sales vol (mn MT)	2.2	2.0	6.3	2.2	0.1
Rs/MT trend					
NSR	4,797	4,806	(0.2)	4,665	2.8
Raw materials	775	780	(0.7)	740	4.8
Power & fuel	802	594	35.0	782	2.5
Freight	979	883	10.9	930	5.3
Employee	369	346	6.6	349	5.8
Other Expenses	643	654	(1.6)	615	4.6
Opex	3,568	3,257	9.6	3,416	4.5
EBITDA	1,229	1,549	(20.6)	1,249	(1.6)

Source: Company, Centrum Research

Earning Revisions summary

Particulars (Rs bn)	FY18E			FY19E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	42.6	43.2	(1.2)	49.1	48.8	0.7
EBITDA	12.2	13.1	(6.9)	15.3	15.6	(1.9)
EBITDA margin (%)	28.6	30.4	(174)	31.1	31.9	(83)
Adj PAT	7.1	8.4	(15.2)	9.4	10.3	(9.1)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY18E			FY19E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Net Sales	42.6	43.5	(1.9)	49.1	48.9	0.4
EBITDA	12.2	12.1	0.6	15.3	13.9	9.6
PAT	7.1	7.1	0.9	9.4	8.5	10.6

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
17	3	8	735	790	7.6

*as on 3 November 2017; Source: Bloomberg, Centrum Research Estimates

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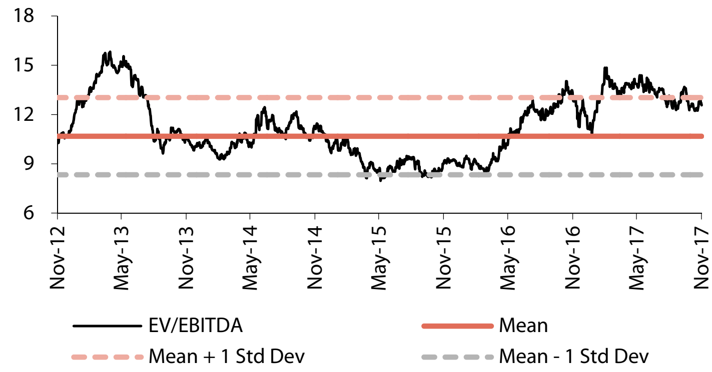
Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	APAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY15	36,449	(1.0)	7,132	19.6	2,349	91.0	9.9	9.1	5.6	30.8	13.7
FY16	35,733	(2.0)	10,716	30.0	5,184	120.6	21.8	17.9	9.7	16.0	9.6
FY17	39,495	10.5	11,764	29.8	6,473	24.9	27.2	18.9	10.7	21.1	12.7
FY18E	42,650	8.0	12,217	28.6	7,139	10.3	30.0	18.0	10.9	24.0	14.9
FY19E	49,106	15.1	15,274	31.1	9,400	31.7	39.5	20.5	12.8	18.2	11.5

Source: Company, Centrum Research Estimates, Standalone Financials

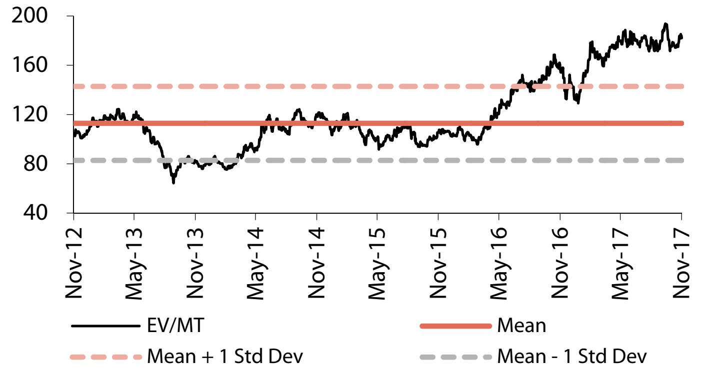
Valuation & Key assumptions

Exhibit 1: 1 year forward EV/EBITDA chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 2: 1 year forward EV/MT chart



Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company	Mkt Cap (Rs bn)	CAGR FY17-19E (%)			EBITDA margin (%)			RoCE (%)			RoE (%)			EV/EBITDA (x)			EV/MT (USD)		
		Rev.	EBITDA	PAT	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Ramco Cements	**171.8**	***11.5***	***13.9***	***20.5***	***29.8***	***28.6***	***31.1***	***10.7***	***10.9***	***12.8***	***18.9***	***18.0***	***20.5***	**12.7**	**14.9**	**11.5**	**153**	**186**	**180**
Orient Cement	36.0	*37.9*	*79.9*	*NM*	*9.5*	*17.8*	*16.2*	*1.4*	*7.7*	*7.0*	*(3.2)*	*8.7*	*6.9*	25.1	14.3	10.8	86	96	94
JK Lakshmi	51.6	*11.0*	*27.3*	*68.0*	*12.6*	*14.5*	*16.5*	*7.8*	*7.3*	*9.4*	*6.1*	*9.0*	*14.4*	17.5	14.3	10.9	90	95	91
JK Cements	69.5	*11.5*	*19.5*	*50.1*	*18.9*	*20.2*	*21.7*	*8.9*	*11.1*	*13.7*	*14.7*	*20.1*	*24.2*	10.5	10.5	8.2	87	102	94

Source: Company, Centrum Research Estimates

Exhibit 4: Key Operational Assumptions

Particulars	FY14	FY15	FY16	FY17	FY18E	FY19E
Installed Capacity (mn MT)	**13.6**	**13.6**	**14.6**	**15.0**	**15.0**	**15.0**
Sales Volume (mn MT)	**8.6**	**7.7**	**7.2**	**8.4**	**8.9**	**9.7**
YoY change (%)	*2.8*	*(10.8)*	*(5.7)*	*15.8*	*6.0*	*9.0*
Utilisation (%)	*63.3*	*56.4*	*49.6*	*55.9*	*59.2*	*64.6*
(Rs/ MT trend)						
NSR	**4,205**	**4,684**	**4,880**	**4,629**	**4,723**	**5,000**
YoY change (%)	*(6.1)*	*11.4*	*4.2*	*(5.1)*	*2.0*	*5.9*
Raw Materials	802	887	814	820	836	853
Power & Fuel	968	918	729	619	656	676
Freight costs	960	1,038	929	881	934	962
Employee cost	258	298	358	332	332	328
Other expense	620	658	606	640	651	659
Total Opex	**3,609**	**3,800**	**3,435**	**3,292**	**3,409**	**3,479**
YoY change (%)	*8.2*	*5.3*	*(9.6)*	*(4.2)*	*3.6*	*2.0*
EBITDA per MT	**596**	**884**	**1,445**	**1,337**	**1,313**	**1,521**

Source: Company, Centrum Research Estimates

Exhibit 5: Quarterly financials trend

Y/E Mar (Rs mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Sales	**8,186**	**9,974**	**9,644**	**10,157**	**9,529**	**10,166**	**10,288**	**10,664**
Total Expenditure	5,643	6,695	6,679	6,631	6,685	7,737	7,384	7,726
Raw Materials	1,398	1,596	1,674	1,580	1,649	1,962	1,591	1,668
Power and Fuel	1,153	1,302	1,293	1,203	1,283	1,406	1,681	1,725
Employee	650	653	707	700	698	673	749	793
Transport	1,475	1,857	1,772	1,788	1,771	2,052	1,999	2,107
Others	967	1,287	1,233	1,360	1,283	1,644	1,363	1,431
EBITDA	**2,543**	**3,279**	**2,965**	**3,526**	**2,844**	**2,429**	**2,904**	**2,939**
Depreciation	679	652	663	667	661	664	720	718
EBIT	1,864	2,627	2,302	2,859	2,183	1,765	2,184	2,221
Interest	420	444	291	282	261	201	155	173
Other Income	18	203	96	60	119	154	52	72
PBT	1,463	2,386	2,106	2,637	2,040	1,718	2,082	2,120
Taxes	399	342	547	567	522	373	524	512
Exceptional expense/ (income)	(122)	-	-	(4)	2	19	(2)	(80)
Reported PAT	1,186	2,043	1,559	2,074	1,517	1,326	1,560	1,689
Adjusted PAT	**1,064**	**2,043**	**1,559**	**2,070**	**1,519**	**1,345**	**1,558**	**1,609**
Adj EPS (Rs)	4.5	8.6	6.6	8.7	6.4	5.7	6.6	6.8
YoY Growth (%)								
Sales volume	*(5.4)*	*10.3*	*14.0*	*18.4*	*22.3*	*9.8*	*4.1*	*6.3*
Cement NSR	*5.5*	*(9.5)*	*(11.4)*	*(3.9)*	*(4.9)*	*(7.4)*	*2.0*	*(0.2)*
Revenue	*0.3*	*0.0*	*1.8*	*14.5*	*16.4*	*1.9*	*6.7*	*5.0*
EBITDA	*95.8*	*19.5*	*17.0*	*19.7*	*11.9*	*(25.9)*	*(2.0)*	*(16.6)*
PBT	*609.6*	*42.9*	*51.2*	*43.1*	*39.5*	*(28.0)*	*(1.1)*	*(19.6)*
Adj PAT	*363.3*	*134.5*	*57.6*	*59.4*	*42.8*	*(34.2)*	*(0.1)*	*(22.3)*
Margins (%)								
EBITDA	*31.1*	*32.9*	*30.7*	*34.7*	*29.9*	*23.9*	*28.2*	*27.6*
EBIT	*22.8*	*26.3*	*23.9*	*28.1*	*22.9*	*17.4*	*21.2*	*20.8*
PBT	*17.9*	*23.9*	*21.8*	*26.0*	*21.4*	*16.9*	*20.2*	*19.9*
Adj PAT	*13.0*	*20.5*	*16.2*	*20.4*	*15.9*	*13.2*	*15.1*	*15.1*
Operational Trend - Cement								
Sales Vol (mn MT)	**1.6**	**2.1**	**2.1**	**2.0**	**2.0**	**2.3**	**2.2**	**2.2**
Trends (Rs/MT)								
NSR	5,003	4,807	4,571	4,806	4,760	4,450	4,665	4,797
Raw material cost	859	770	810	780	830	862	740	775
Power and fuel cost	709	628	626	594	645	617	782	802
Employee cost	400	315	342	346	351	295	349	369
Transport cost	907	896	858	883	891	901	930	979
Other expenses	570	601	577	654	625	705	615	643
Operating cost	3,446	3,209	3,213	3,257	3,342	3,380	3,416	3,568
EBITDA per MT	**1,557**	**1,598**	**1,358**	**1,549**	**1,417**	**1,069**	**1,249**	**1,229**

Source: Company, Centrum Research

Financials (Standalone)

Exhibit 6: Income Statement

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Revenues	**36,449**	**35,733**	**39,495**	**42,650**	**49,106**
Materials cost	6,805	5,888	7,326	7,423	8,253
% of revenues	*18.7*	*16.5*	*18.5*	*17.4*	*16.8*
Employee Cost	2,287	2,587	2,777	2,944	3,177
% of revenues	*6.3*	*7.2*	*7.0*	*6.9*	*6.5*
Others	20,224	16,542	17,628	20,065	22,402
% of revenues	*55.5*	*46.3*	*44.6*	*47.0*	*45.6*
EBITDA	**7,132**	**10,716**	**11,764**	**12,217**	**15,274**
EBIDTA Margins (%)	*19.6*	*30.0*	*29.8*	*28.6*	*31.1*
Depreciation & Amortisation	2,499	3,048	2,655	2,842	2,888
EBIT	4,634	7,668	9,109	9,375	12,386
Interest expenses	1,938	1,819	1,035	640	500
PBT from operations	2,695	5,849	8,074	8,735	11,886
Other Income	858	884	428	537	647
Exceptional loss/(gain)	63	238	20	-	-
PBT	3,616	6,972	8,522	9,271	12,533
Taxes	1,204	1,550	2,029	2,132	3,133
Effective tax rate (%)	*33.3*	*22.2*	*23.8*	*23.0*	*25.0*
Net Profit	2,412	5,422	6,493	7,139	9,400
Reported Net Profit	2,412	5,422	6,493	7,139	9,400
Adj Net Profit	**2,349**	**5,184**	**6,473**	**7,139**	**9,400**

Source: Company, Centrum Research Estimates

Exhibit 7: Key Ratios

Y/E March	FY15	FY16	FY17	FY18E	FY19E
Growth ratios (%)					
Revenues	*(1.0)*	*(2.0)*	*10.5*	*8.0*	*15.1*
EBIDTA	*26.7*	*50.2*	*9.8*	*3.9*	*25.0*
Adj Net Profit	*91.0*	*120.6*	*24.9*	*10.3*	*31.7*
Margin ratios (%)					
EBITDA Margin	*19.6*	*30.0*	*29.8*	*28.6*	*31.1*
PBT from operations Margin	*7.4*	*16.4*	*20.4*	*20.5*	*24.2*
Adj PAT Margin	*6.4*	*14.5*	*16.4*	*16.7*	*19.1*
Return Ratios (%)					
RoE	*9.1*	*17.9*	*18.9*	*18.0*	*20.5*
RoCE	*5.6*	*9.7*	*10.7*	*10.9*	*12.8*
RoIC	*4.8*	*8.9*	*10.4*	*10.8*	*13.4*
Turnover Ratios (days)					
Gross block turnover (x)	0.5	0.5	0.5	0.5	0.6
Debtors	38.3	48.2	51.3	52.0	50.1
Inventory	52.1	56.1	53.2	54.0	53.0
Creditors	23.4	21.9	23.6	23.0	23.0
Cash conversion cycle	67.0	82.4	80.8	83.0	80.1
Solvency Ratio					
Net debt-equity	0.9	0.6	0.3	0.2	0.1
Debt-equity	1.0	0.7	0.4	0.3	0.3
Interest coverage ratio	2.4	4.2	8.8	14.6	24.8
Gross debt/EBITDA	3.7	2.0	1.2	1.2	0.9
Current Ratio	1.7	1.5	1.4	1.6	2.0
Per Share (Rs)					
Adjusted EPS	9.9	21.8	27.2	30.0	39.5
BVPS	112.7	130.0	157.2	175.6	210.4
CEPS	20.4	34.6	38.4	41.9	51.6
DPS	1.5	3.0	3.0	4.0	4.0
Dividend payout %	*17.8*	*15.9*	*13.3*	*15.4*	*11.7*
Valuations (x)(Avg Mkt Cap)					
P/E (adjusted)	30.8	16.0	21.1	24.0	18.2
P/BV	2.7	2.7	3.6	4.1	3.4
EV/EBITDA	13.7	9.6	12.7	14.9	11.5
EV/ton (USD $)	111	109	153	186	180
Dividend yield %	*0.5*	*0.9*	*0.5*	*0.5*	*0.5*
5 Yr Avg AOCF/EV yield %	*5.6*	*6.2*	*4.7*	*4.3*	*5.4*

Source: Company, Centrum Research Estimates

Exhibit 8: Balance Sheet

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	238	238	238	236	236
Reserves & surplus	26,586	30,697	37,177	41,541	49,843
Total Shareholders' Fund	**26,824**	**30,935**	**37,415**	**41,777**	**50,079**
Total Debt	26,572	21,230	14,248	14,248	14,248
Def tax liab. (net)	7,112	7,155	7,281	7,440	7,599
Total Liabilities	**60,508**	**59,320**	**58,945**	**63,465**	**71,926**
Gross Block	74,168	77,670	80,561	81,861	83,161
Less:- Accumulated Depreciation	23,274	26,310	28,627	31,469	34,357
Net Block	50,894	51,360	51,934	50,392	48,804
Capital WIP	2,627	1,468	1,203	3,903	7,903
Net Fixed assets	**53,521**	**52,828**	**53,137**	**54,294**	**56,707**
Investments	1,445	1,367	1,379.1	1,379	1,379
Inventories	5,206	5,490	5,754	6,310	7,131
Sundry Debtors	3,823	4,721	5,549	6,076	6,740
Cash & bank balances	877	908	1,181	4,209	9,900
Loans & Advances	1,753	1,076	1,146	1,355	1,607
Other Assets	2,274	2,551	1,943	1,943	2,278
Total current assets	**13,932**	**14,746**	**15,573**	**19,893**	**27,656**
Trade payables	2,337	2,147	2,558	2,688	3,094
Other current liabilities	5,546	7,052	8,076	8,903	10,210
Provisions	506	423	511	511	511
Net current assets	**5,543**	**5,124**	**4,429**	**7,792**	**13,840**
Total	**60,508**	**59,320**	**58,945**	**63,465**	**71,926**

Source: Company, Centrum Research Estimates

Exhibit 9: Cash Flow

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Op profit before WC changes	7,439	9,921	10,241	10,244	12,300
Working capital changes	2,126	930	813	(335)	(357)
Cash from Operations	**9,565**	**10,851**	**11,054**	**9,908**	**11,942**
Adj. OCF (OCF-Interest)	**7,254**	**9,230**	**9,964**	**9,268**	**11,442**
Net capex	(4,386)	(2,771)	(3,043)	(4,000)	(5,300)
Adj. FCF (AOCF-Capex)	**2,869**	**6,460**	**6,921**	**5,268**	**6,142**
Cash from investing	**(4,816)**	**(2,632)**	**(2,758)**	**(3,463)**	**(4,653)**
Cash from financing	**(4,573)**	**(9,428)**	**(6,586)**	**(3,417)**	**(1,598)**
Net change in cash	176	(1,209)	1,710	3,028	5,691

Source: Company, Centrum Research Estimates

Appendix A

Disclaimer

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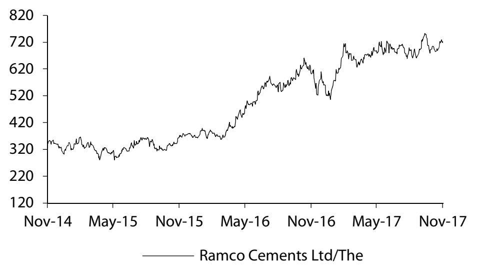
Ramco Cements price chart



Source: Bloomberg, Centrum Research

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