

The Ramco Cements Ltd.



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Strategic capacity addition plan providing revenue visibility!

CMP INR 733	Target INR 910	Potential Upside 24.1%	Market Cap (INR mn) 172,466	Recommendation BUY	Sector Cement
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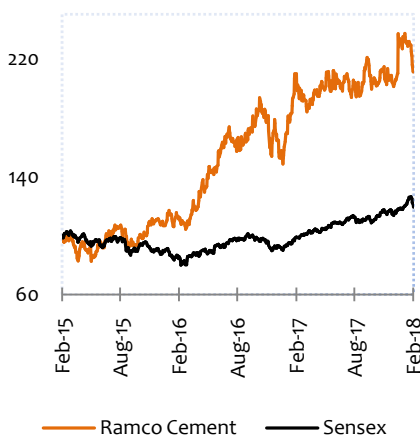
Result highlights:

- During Q3FY18, the company posted revenues of INR 10564 mn which grew by 12% y-o-y and was flattish on q-o-q basis. Growth was primarily led by higher volumes which stood at 2.27 MT (+14.5% y-o-y and +5.6% q-o-q) as against our estimates of 2.25 MT.
- EBITDA witnessed a sharp decline of 14.4% y-o-y and 22% q-o-q and stood at INR 2353 mn. EBITDA margins took a hit of 686 bps y-o-y and 600 bps q-o-q owing to softer realizations and significant surge in freight costs.
- Net profit for the quarter came in at INR 1227 mn; a de-growth of 19.2% y-o-y and 27.2% q-o-q. PAT margins decreased by 448 bps y-o-y on the back of lower operational profit and other income.

MARKET DATA

Shares outs (mn)	235
EquityCap (INR mn)	236
Mkt Cap (INR mn)	172466
52 Wk H/L (INR)	840/616
Volume Avg (3m K)	335.4
Face Value (INR)	1
Bloomberg Code	TRCL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	34196
NIFTY	10498

Revenues in-line with estimates:

The Ramco Cements Ltd (TRCL) delivered a volume/revenue growth of 14.5%/12% y-o-y for Q3FY18 and volumes stood at 2.27 MT. The core markets of TRCL has suffered a significant slowdown during the current year owing to shortage of river sand in Tamil Nadu (TN) and lower off-take of infrastructure and housing projects in Kerala. Both TN/Kerala has de-grown by 17.65%/2.02% y-o-y for 9MFY18 despite a low base. However, the company has witnessed a growth of 8.28% y-o-y for 9MFY18 with volumes scaling to 6.58 MT on the back of higher dispatches in the fast-growing Eastern region.

On the growth outlook, we reckon that the company should deliver volume CAGR of 14.25% over FY17-FY20E on the back of expected revival in TN market, consistently growing demand in Eastern region and capacity addition in the overall satellite grinding units of the company from 4 MTPA to 7.1 MTPA by FY19E.

Operating margins witness a significant decline:

During the quarter, EBITDA margins declined by 686 bps y-o-y and 600 bps q-o-q while EBITDA/ton stood at INR 1037; decreasing by 25.2% y-o-y and 26.1% q-o-q. We believe that higher dispatches in the Eastern region is the primary reason for surge in freight costs per ton; which increased by 11.5% y-o-y and 2% q-o-q. Consequently, NPR for TRCL declined by 5.4% y-o-y and total cost of production surged by 5.7% y-o-y during the quarter. EBITDA/ton for 9MFY18 stood at INR 1258 as against INR 1521 in 9MFY17; a drop of 17.31%.

Going ahead, we believe that stability in cement prices on the back of improved demand and operating leverage should off-set the consistently increasing input costs. Consequently, we estimate EBITDA/ton to remain range-bound at INR 1362 by FY20E as against INR 1424 in FY17.

Valuation and Outlook:

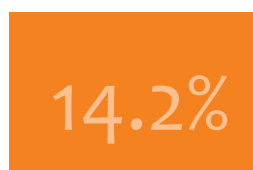
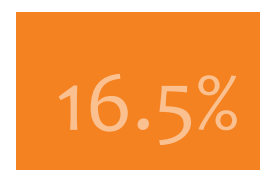
We factor in total capex of INR 11653 mn over FY18-FY20E for the capacity addition plan post which the total cement capacity for the company will stand at 19.6 MTPA. Further, we estimate revenue/EBITDA/PAT CAGR of 16.5%/12.58%/13.19% over FY17-FY20E for the company.

With an expected net debt of INR 4337 mn by FY20E, the company trades at an EV/EBITDA of 10.4x and EV/ton of \$132.

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 FY20E arriving at a target price of **INR 910** translating into a potential upside of **24.1%** from CMP of **INR 733**. We maintain our **BUY rating** on the stock.

SHARE HOLDING PATTERN (%)

Particulars	Dec 17	Sep 17	Jun 17
Promoters	42.75	42.75	42.67
FIIIs	13.89	14.83	14.53
DIIIs	19.05	18	18.48
Others	24.32	24.42	24.32
Total	100	100	100


 Volume CAGR over FY 17 to
FY 20E

 Revenue CAGR over FY 17 to
FY 20E

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KEY FINANCIALS

Particulars (INR mn)	FY16	FY17	FY18E	FY19E	FY20E
Revenues	35817.60	39671.30	44478.24	48997.23	62791.64
EBITDA	10764.70	11892.30	11949.32	12833.71	16969.31
APAT	5452.30	6627.40	6096.52	6544.42	9486.49
AEPS	22.90	27.81	25.58	27.46	39.81
P/E (x)	17.53	24.38	28.65	26.69	18.41
EV/EBITDA (x)	14.23	14.68	15.42	14.41	10.43

Source: Company data, KRChoksey Research

Q3FY18 Result update

Particulars (mn)	Q3FY18	Q2FY18	Q3FY17	q-o-q	y-o-y
Net Sales	10564	10664	9433	-0.9%	12.0%
Total Expenditure	8211	7649	6685	7.3%	22.8%
Cost of Raw Materials	2011	1592	1649	26.3%	21.9%
Employee Cost	759	793	698	-4.3%	8.8%
Power and Fuel Costs	1708	1725	1283	-1.0%	33.1%
Transportation costs	2262	2107	1771	7.3%	27.7%
Other expenses	1471	1431	1283	2.8%	14.6%
PBIDT (Excl OI)	2353	3015	2748	-22.0%	-14.4%
EBITDA Margins (%)	22.3%	28.3%	29.1%	-600bps	-686bps
Depreciation	730	718	661	1.6%	10.3%
EBIT before Exceptional Item	1623	2297	2087	-29.3%	-22.2%
Other income	52	72	215	-28.6%	-76.0%
EBIT	1675	2370	2302	-29.3%	-27.2%
Interest	160	173	261	-7.2%	-38.6%
EBT	1515	2197	2040	-31.1%	-25.8%
Tax	287	512	522	-43.9%	-45.0%
PAT	1227	1685	1518.8	-27.2%	-19.2%
PAT Margin (%)	11.6%	15.8%	16.10%	-418bps	-448bps
EPS	5.21	7.15	6.38	-27.2%	-18.3%

Source: Company data, KRChoksey Research

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Key Financials

Profit & Loss (INR mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	35817.60	39671.30	44478.24	48997.23	62791.64
COGS	5888.20	6865.90	7524.32	8288.79	10622.37
Employee Expenses	2594.00	2785.20	3073.96	3289.14	3782.51
Power and fuel	5269.70	5184.60	7249.04	8768.44	12118.39
Transportation cost	6719.00	7382.70	8900.72	9805.03	12565.49
Other expenses	4582.00	5560.60	5780.88	6012.12	6733.57
EBITDA	10764.70	11892.30	11949.32	12833.71	16969.31
Other income	754.70	392.30	300.00	300.00	300.00
D&A	3052.60	2668.70	2890.00	3134.54	3187.04
EBIT	8466.80	9615.90	9359.32	9999.17	14082.26
Interest Expense	1837.60	1048.80	650.00	650.00	530.14
PBT	6629.20	8567.10	8709.32	9349.17	13552.13
Tax	1316.60	2025.00	2612.80	2804.75	4065.64
Effective tax rate	20%	24%	30%	30%	30%
NPAT	5452.30	6627.40	6096.52	6544.42	9486.49

Source: Company data, KRChoksey Research

Balance Sheet (INR mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	238.1	238.1	235.6	235.6	235.6
Reserves	31093.3	37716.5	43106.2	48943.8	57723.5
Net worth	31331.4	37954.6	43341.8	49179.4	57959.1
Total loans	16900.8	14375.5	13375.5	13375.5	6265.1
Capital Employed	49110.4	50450.3	54884.8	60726.9	65408.1
Net block	50784.8	51462.4	51572.4	57437.9	55750.8
Inventories	5501.7	5765.7	8957.5	9867.6	12645.7
Sundry debtors	4721.2	5549.0	6671.7	7349.6	9418.7
Sundry creditors	2148.0	2562.2	2697.0	3029.3	3884.6
Cash and bank	911.3	1197.7	1875.0	1096.3	1928.0
Total Current assets	13341.8	14217.8	19416.8	20420.4	26694.8
Total Current liabilities	20332.5	20254.8	19475.2	20750.6	21849.1
Capital Deployed	49110.4	50450.3	54884.8	60726.9	65408.1

Source: Company data, KRChoksey Research

Cash Flow (INR mn)	FY16	FY17	FY18E	FY19E	FY20E
PAT	5312.60	6542.10	6096.52	6544.42	9486.49
Depreciation & Amortization	3052.60	2668.70	2890.00	3134.54	3187.04
(Incr)/Decr in Working Capital	664.60	-619.70	-5326.99	-524.93	-1401.38
Cash Flow from Operating	10674.20	11174.10	4309.53	9804.03	11802.29
(Incr)/ Decr in Gross PP&E	-2720.10	-3071.30	-1153.50	-9000.00	-1500.00
Cash Flow from Investing	-2336.40	-2801.70	-1272.91	-9225.95	-2623.25
(Decr)/Incr in Debt	11166.50	-5545.40	-1000.00	0.00	-7110.40
Cash Flow from Financing	-8080.50	-6649.60	-2359.30	-1356.80	-8347.34
Incr/(Decr) in Balance Sheet Cash	257.30	1722.80	677.32	-778.72	831.70
Cash at the Start of the Year	586.40	914.20	1197.70	1875.02	1096.30
Other bank balances	70.50	70.50	0.00	0.00	0.00
Cash at the End of the Year	914.20	2707.50	1875.02	1096.30	1928.0
Cash credit	0	1509.8	0	0	0
Net cash	914.20	1197.7	1875.02	1096.30	1928.0

Source: Company data, KRChoksey Research

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Operating metrics (in INR)	FY16	FY17	FY18E	FY19E	FY20E
Realization/ton	4974.67	4752.19	4847.24	4944.18	5043.06
COGS cost/ton	817.81	822.46	820.00	836.40	853.128
Employee cost/ton	360.28	333.64	335.00	331.90	303.79
Power and fuel cost/ton	731.90	621.06	790.00	884.80	973.28
Transportation and Handling cost/ton	933.19	884.37	970.00	989.40	1009.19
Other Expenses/ton	636.39	666.10	630.00	606.67	540.80
EBITDA/ton	1495.10	1424.57	1302.24	1295.02	1362.88

Source: Company data, KRChoksey Research

Ratio Analysis	FY16	FY17	FY18E	FY19E	FY20E
EBITDA/ton	1495.10	1424.57	1302.24	1295.02	1362.88
Volume (mn tons)	7.20	8.35	9.18	9.91	12.45
Growth (%)					
Total Sales	-2.01%	10.76%	12.12%	10.16%	28.15%
EBITDA	49.53%	10.47%	0.48%	7.40%	32.22%
PAT	121.52%	21.55%	-8.01%	7.35%	44.96%
Profitability (%)					
EBITDA Margin	30.05%	29.98%	26.87%	26.19%	27.02%
NPM	15.22%	16.71%	13.71%	13.36%	15.11%
Return ratios (%)					
ROE	19.60%	17.46%	14.07%	13.31%	16.37%
ROCE	15.29%	18.37%	16.50%	15.98%	21.92%
Per share data					
EPS	22.90	27.81	25.58	27.46	39.81
BPS	131.60	159.42	183.96	208.74	246.01
Valuations (x)					
P/E (x)	17.53	24.38	28.65	26.69	18.41
P/BV (x)	4.38	4.25	3.98	3.51	2.98
EV/EBITDA (x)	14.23	14.68	15.42	14.41	10.43
EV/Ton (\$)	180.41	205.59	164.18	164.88	132.84
Net Debt/EBITDA	1.49	1.11	0.96	0.96	0.26
Net Debt/Equity	0.51	0.35	0.27	0.25	0.07
Interest Coverage	4.61	9.17	14.40	15.38	26.56

Source: Company data, KRChoksey Research

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The Ramco Cements Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
07-Feb-18	733	910	BUY	Buy	More than 15%
02-Nov-17	720	835	BUY	Accumulate	5% – 15%
07-Aug-17	686	805	BUY	Hold	0 – 5%
31-May-17	698	805	BUY	Reduce	-5% – 0
08-Feb-17	680	772	ACCUMULATE	Sell	Less than – 5%
09-Jan-17	580	730	BUY		

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