MOTILAL OSWAL

23 May 2018

4QFY18 Results Update | Sector: Cement

The Ramco Cement

BSE SENSEX	S&P CNX
34,345	10,430

Bloomberg	TRCL IN
Equity Shares (m)	235.6
M.Cap.(INRb)/(USDb)	188.0 / 2.8
52-Week Range (INR)	879 / 649
1, 6, 12 Rel. Per (%)	-5/10/4
Avg Val, INRm	214.0
Free float (%)	57.3

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	43.9	49.3	58.1
EBITDA	10.7	12.1	14.6
PAT	5.6	7.1	8.8
EPS (INR)	23.9	30.0	37.2
Gr. (%)	-12.3	25.7	24.0
BV/Sh (INR)	177.7	203.1	235.6
RoE (%)	14.2	15.7	17.0
RoCE (%)	11.5	13.7	15.3
P/E (x)	33.2	26.4	21.3
P/BV (x)	4.5	3.9	3.4

Estimate change

TP change

Rating change

CMP: INR798 TP: INR918(+15%) Buy

East market drives healthy volume growth

- **Volume growth led by eastern market:** TRCL's volumes grew 20% YoY to 2.74mt (est. of 2.6mt) in 4QFY18, driven by strong growth in the eastern market. South volumes also grew at a healthy pace. Cement realizations stood at INR4,571/ton (+2.7% YoY, -0.8% QoQ) v/s our estimate of INR4,539/ton due to weaker prices in south. Revenue grew 23% YoY to INR12.5b, better than our estimate of INR11.9b, due to the realization beat.
- **Margins stable QoQ:** Blended EBITDA/t fell 8% YoY (-2% QoQ) to INR985 (est. of INR1,009) due to cost push. Cost/t increased 6% YoY (-1% QoQ) to INR3,591 (est. of INR3,569) due to higher P&F cost/t (+29% YoY, led by higher petcoke prices) and freight cost/t (+18% YoY, led by higher diesel prices). Power segment reported EBITDA loss of INR40m in 4QFY18, while Cement EBITDA stood at INR1,000/t (-7% YoY/ flat QoQ). Hence, EBITDA increased 11% YoY to INR2.69b (est. of INR2.62b). Interest cost fell 48% YoY to INR105m due to debt reduction. Tax rate was higher at 38% v/s 22% in 4QFY17.
- **Management commentary:** 1) Freight cost/t increased due to an 8% YoY rise in diesel price. 2) Debt reduction has been to the extent of INR3.1b in FY18. 3) It announced clinker unit of 1.5mt at capex of INR6.8b; clinker addition is along with grinding capacity addition of 3mt.
- **Valuation view:** With ~12% market share in south, a strong brand/dealer network, superior pricing and industry leading RoEs (~16% in FY18), peak parameters are already in place. TRCL is likely to generate strong operating cash flow, which would be utilized to increase grinding capacity by ~17% over FY17-20. We estimate 17%/24% EBITDA/PBT CAGR over FY18-20. The stock trades at EV of 13x FY20E EBITDA, and USD158/ton (FY20E). Maintain **Buy** with TP of INR918 (valuing at 15x FY20E EBITDA), implying 15% upside.

Quarterly Performance (INR Million)

Y/E March	FY17				FY18				FY17	FY18	FY18	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Sales Dispatches (m ton)	2.07	2.03	1.98	2.28	2.15	2.15	2.27	2.74	8.35	9.31	2.60	5
YoY Change (%)	14.0	18.4	21.9	9.8	4.1	6.3	14.7	20.2	16.0	11.5	14.1	
Realization (INR/ton)	4,563	4,790	4,696	4,450	4,607	4,783	4,606	4,571	4,620	4,638	4,539	1
YoY Change (%)	-11.9	-1.8	-5.5	-12.4	1.0	-0.1	-1.9	2.7	-8.5	0.4	2.0	
QoQ Change (%)	-10.2	5.0	-2.0	-5.2	3.5	3.8	-3.7	-0.8			-1.5	
Net Sales	**9,667**	**10,124**	**9,374**	**10,166**	**10,165**	**10,633**	**10,534**	**12,519**	**39,292**	**43,851**	**11,897**	5
YoY Change (%)	6.9	15.5	15.3	5.7	5.1	5.0	12.4	23.1	10.7	11.6	17.0	
EBITDA	**2,988**	**3,493**	**2,690**	**2,429**	**2,781**	**2,908**	**2,276**	**2,694**	**11,743**	**10,658**	**2,622**	3
Margins (%)	30.9	34.5	28.7	23.9	27.4	27.3	21.6	21.5	29.9	24.3	22.0	
Depreciation	663	667	661	664	720	718	730	754	2,845	2,922	767	
Interest	291	282	261	201	155	173	160	105	1,035	592	133	
Other Income	73	93	273	154	176	103	82	218	639	579	105	
PBT	**2,106**	**2,637**	**2,040**	**1,718**	**2,082**	**2,197**	**1,592**	**1,765**	**8,522**	**7,636**	**1,826**	-3
Tax	547	567	542	373	524	511	364	679	2,029	2,079	437	
Rate (%)	26.0	21.5	26.6	21.7	25.2	23.3	22.9	38.5	23.8	27.2	23.9	
Reported PAT	**1,559**	**2,070**	**1,498**	**1,345**	**1,558**	**1,685**	**1,227**	**1,086**	**6,493**	**5,557**	**1,390**	-22
Adj PAT	**1,559**	**2,070**	**1,498**	**1,345**	**1,558**	**1,609**	**1,103**	**1,374**	**6,473**	**5,644**	**1,390**	-1
YoY Change (%)	57.1	45.6	26.6	-26.3	-0.1	-22.3	-26.4	2.2	24.9	-12.8	3.3	
Margins (%)	16.1	20.4	16.0	13.2	15.3	15.1	10.5	11.0	16.5	12.9	11.7	

E: MOSL Estimates

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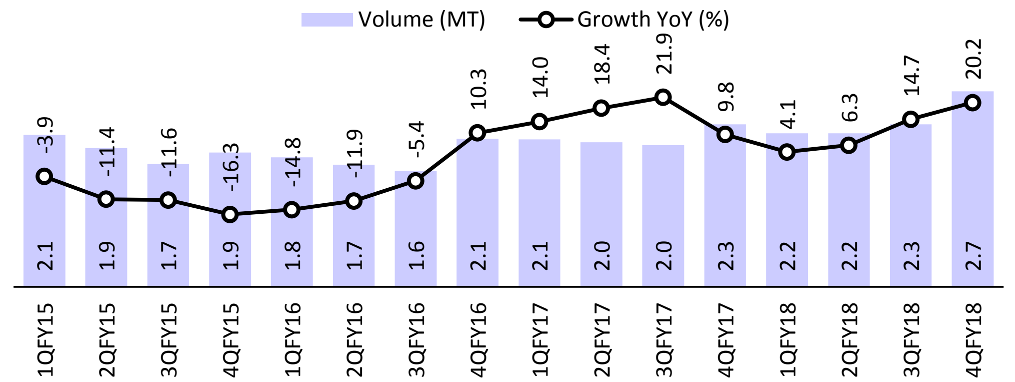
Volume growth driven by east

- Volume grew 20% YoY to 2.74mt (est. of 2.6mt) in 4QFY18, led by growth in the eastern market.
- Volumes in Tamil Nadu remained muted on account of sand shortage.
- Cement realizations stood at INR4,571/ton (+2.7% YoY, -0.8% QoQ) v/s our estimate of INR4,539/ton due to weaker pricing in the south market.
- Revenue grew 23% YoY to INR12.5b (est. of INR11.9b), higher than our estimate due to an increase in volumes.

Exhibit 1: Volume increased by 20% YoY

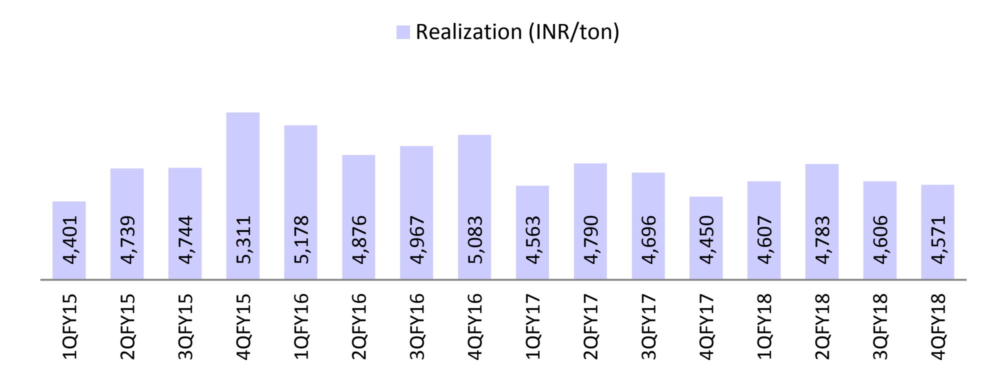


Source: MOSL, Company

Margins stable QoQ

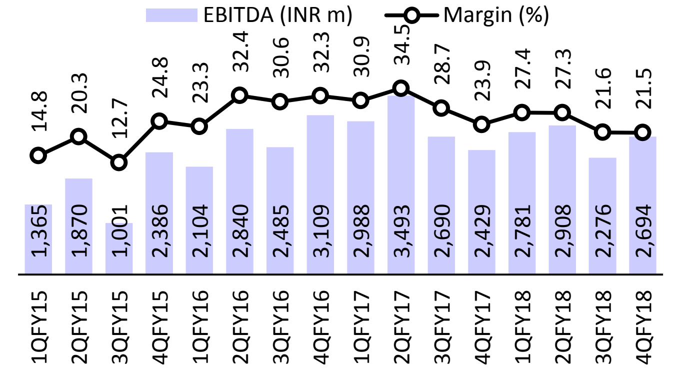
- Blended EBITDA/tonne stood at INR985 (est. of INR1,009/t; -7%YoY/-2% QoQ).
- The company reported windmill EBITDA loss of INR40m. Cement EBITDA/t stood at INR1,000 v/s our estimate of INR1,020 (-7% YoY; flat QoQ). The YoY contraction in margins is due to cost push on account of higher power & fuel and freight cost.
- EBITDA stood at INR2.7b, up 11% YoY (est. of INR2.62b) | margins were at 21.5% (-2.38pp YoY, flat QoQ) due to cost push.
- Interest cost declined 48% YoY to INR105m due to INR3.1b debt reduction.
- Adj. PAT stood at INR1.37b (+2% YoY) v/s our estimate of INR 1.39b, as higher EBITDA was offset by a higher tax rate of 38% v/s 22% in 4QFY17.

Exhibit 2: Sequential decline in realization



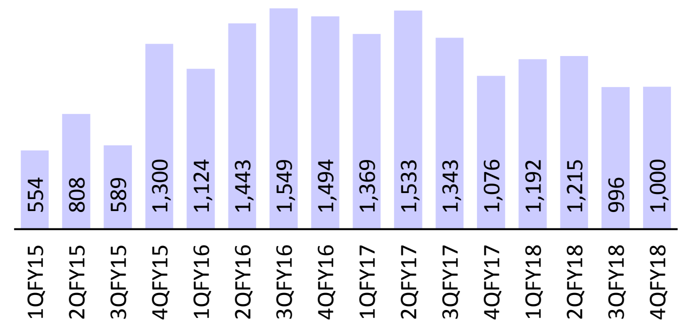
Source: MOSL, Company

Exhibit 3: Margins flat QoQ



Source: MOSL, Company

Exhibit 4: Cement EBITDA/t flat QoQ



Source: MOSL, Company

Exhibit 5: Key performance indicators - Per ton analysis (incl Windmills)

INR/Ton	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)
Net realization	4,576	4,465	2	4,632	-1
RM Cost	845	862	-2	905	-7
Employee Expenses	270	295	-9	334	-19
Power, Oil & Fuel	795	617	29	751	6
Freight and Handling Outward	1,064	901	18	995	7
Other Expenses	617	722	-15	647	-5
Total Expenses	3,591	3,398	6	3,631	-1
EBITDA	985	1,067	-8	1,001	-2
Cement EBITDA (ex windmills)	1,000	1,076	-7	996	0

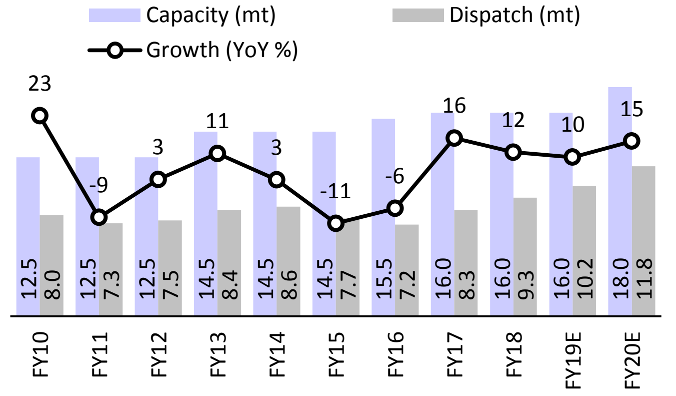
Source: MOSL, Company

Valuation and view

With ~12% market share in south, a strong brand/dealer network, superior pricing and industry leading RoEs (~16% in FY18), peak parameters are already in place. TRCL is likely to generate strong operating cash flow, which would be utilized to increase grinding capacity by ~17% over FY17-20. We estimate 17%/24% EBITDA/PBT CAGR over FY18-20. The stock trades at EV of 13x FY20E EBITDA, and USD158/ton (FY20E). Maintain **Buy** with TP of INR918 (valuing at 15x FY20E EBITDA), implying 15% upside.

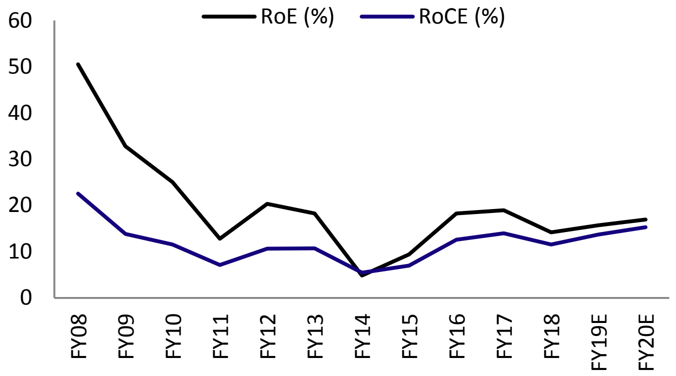
Story in charts

Exhibit 6: Volumes to grow at a CAGR of 12% over FY17-20E



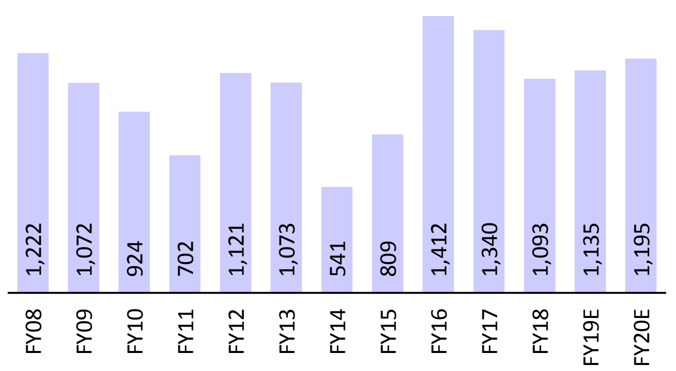
Source: MOSL, Company

Exhibit 7: Trend in ROE and ROCE



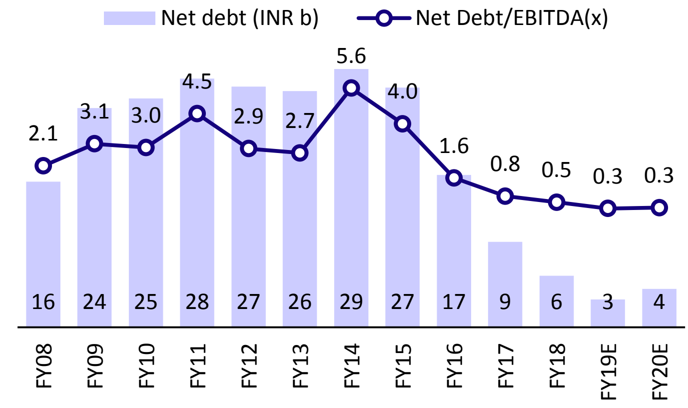
Source: MOSL, Company

Exhibit 8: Cement EBITDA/ton trend (INR)



Source: MOSL, Company

Exhibit 9: Committed to deleveraging



Source: MOSL, Company

Financials and Valuations

Income Statement								(INR m)
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Net Sales	**37,884**	**36,321**	**35,939**	**35,507**	**39,292**	**43,851**	**49,348**	**58,083**
Change (%)	18.3	-4.1	-1.1	-1.2	10.7	11.6	12.5	17.7
EBITDA	**9,631**	**5,117**	**6,622**	**10,490**	**11,743**	**10,658**	**12,116**	**14,575**
Margin (%)	25.4	14.1	18.4	29.5	29.9	24.3	24.6	25.1
Depreciation	2,806	3,063	2,499	3,048	2,845	2,922	2,618	3,175
EBIT	**6,825**	**2,054**	**4,123**	**7,442**	**8,898**	**7,736**	**9,498**	**11,400**
Int. and Finance Charges	1,785	1,881	1,938	1,819	1,035	592	548	516
Other Income - Rec.	842	1,141	1,379	1,110	639	579	597	640
PBT bef. EO Exp.	**5,882**	**1,314**	**3,564**	**6,734**	**8,502**	**7,723**	**9,547**	**11,524**
EO Expense/(Income)	5	-230	0	-238	-20	87	0	0
PBT after EO Exp.	**5,877**	**1,543**	**3,564**	**6,972**	**8,522**	**7,636**	**9,547**	**11,524**
Current Tax	1,174	-44	88	1,498	1,870	1,859	2,482	2,766
Deferred Tax	672	210	1,053	53	159	220	0	0
Tax Rate (%)	31.4	10.8	32.0	22.2	23.8	27.2	26.0	24.0
Reported PAT	**4,032**	**1,377**	**2,424**	**5,422**	**6,493**	**5,557**	**7,064**	**8,758**
PAT Adj for EO items	**4,035**	**1,172**	**2,424**	**5,237**	**6,477**	**5,620**	**7,064**	**8,758**
Change (%)	4.8	-71.0	106.8	116.1	23.7	-13.2	25.7	24.0
Margin (%)	10.7	3.2	6.7	14.7	16.5	12.8	14.3	15.1

Balance Sheet								(INR m)
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Equity Share Capital	238	238	238	238	238	236	236	236
Total Reserves	23,470	24,583	26,214	30,697	37,177	41,639	47,608	55,260
Net Worth	**23,708**	**24,821**	**26,452**	**30,935**	**37,415**	**41,874**	**47,844**	**55,496**
Deferred Liabilities	7,164	7,374	8,271	7,211	7,327	7,547	7,547	7,547
Total Loans	26,671	29,000	27,119	21,230	14,248	11,248	8,248	8,248
Capital Employed	**57,542**	**61,195**	**61,841**	**59,376**	**58,990**	**60,669**	**63,639**	**71,291**
Gross Block	64,388	67,880	72,350	75,444	78,345	80,319	83,319	98,119
Less: Accum. Deprn.	18,359	21,422	23,920	26,348	28,693	31,615	34,233	37,408
Net Fixed Assets	**46,029**	**46,458**	**48,429**	**49,097**	**49,652**	**48,704**	**49,086**	**60,711**
Capital WIP	1,480	3,495	2,575	1,383	974	3,000	5,000	2,000
Total Investments	**2,658**	**2,834**	**3,558**	**3,716**	**3,890**	**2,890**	**2,890**	**2,890**
Curr. Assets, Loans&Adv.	**14,547**	**15,899**	**15,763**	**14,746**	**15,573**	**16,262**	**19,663**	**20,960**
Inventory	5,948	6,855	5,206	5,490	5,754	5,276	6,408	7,358
Account Receivables	3,028	3,040	3,802	4,721	5,549	3,926	5,001	5,887
Cash and Bank Balance	536	447	618	908	1,181	1,908	1,533	357
Loans and Advances	5,035	5,557	6,136	3,627	3,089	5,153	6,721	7,358
Curr. Liability & Prov.	**7,172**	**7,492**	**8,861**	**9,566**	**11,099**	**10,187**	**13,000**	**15,270**
Account Payables	5,300	6,443	7,238	9,182	10,598	9,815	12,503	14,716
Provisions	1,873	1,049	1,623	384	501	372	496	553
Net Current Assets	**7,375**	**8,407**	**6,901**	**5,180**	**4,474**	**6,075**	**6,663**	**5,690**
Appl. of Funds	**57,542**	**61,195**	**61,841**	**59,376**	**58,990**	**60,669**	**63,639**	**71,291**

Financials and Valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
Consol EPS	**17.0**	**4.9**	**10.2**	**22.0**	**27.2**	**23.9**	**30.0**	**37.2**
Cash EPS	28.7	17.8	20.7	34.8	39.2	36.3	41.1	50.7
BV/Share	99.6	104.3	111.1	129.9	157.1	177.7	203.1	235.6
DPS	3.0	1.0	1.5	3.0	3.0	4.0	4.0	4.0
Payout (%)	20.6	20.2	17.1	15.3	12.8	19.7	15.5	12.6
Valuation (x)								
P/E			77.8	36.0	29.1	33.2	26.4	21.3
Cash P/E			38.3	22.8	20.2	21.8	19.3	15.6
P/BV			7.1	6.1	5.0	4.5	3.9	3.4
EV/Sales			5.9	5.7	5.0	4.3	3.7	3.3
EV/EBITDA			31.8	19.3	16.6	17.8	15.2	13.0
EV/Ton (US$)			217	195	182	177	173	157
Dividend Yield (%)			0.2	0.4	0.4	0.5	0.5	0.5
Return Ratios (%)								
RoIC	9.5	3.4	5.1	10.7	12.8	10.6	13.1	14.4
RoE	18.3	4.8	9.5	18.2	19.0	14.2	15.7	17.0
RoCE	10.7	5.5	7.0	12.6	14.0	11.5	13.7	15.3
Working Capital Ratios								
Asset Turnover (x)	0.7	0.6	0.6	0.6	0.7	0.7	0.8	0.8
Inventory (Days)	57.3	68.9	52.9	56.4	53.5	43.9	47.4	46.2
Debtor (Days)	25	26	34	42	45	32	32	32
Creditor (Days)	51	65	74	94	98	82	92	92
Working Capital Turnover (Days)	66	80	64	44	31	35	38	34
Leverage Ratio (x)								
Current Ratio	2.0	2.1	1.8	1.5	1.4	1.6	1.5	1.4
Debt/Equity	1.1	1.2	1.0	0.7	0.4	0.3	0.2	0.1

Cash Flow Statement **(INR m)**

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Oper. Profit/(Loss) before Tax	6,825	2,054	4,123	7,442	8,898	7,736	9,498	11,400
Interest/Dividends Recd.	842	1,141	1,379	1,110	639	579	597	640
Depreciation	2,806	3,063	2,499	3,048	2,845	2,922	2,618	3,175
Direct Taxes Paid	-1,174	44	-244	-2,610	-1,913	-1,859	-2,482	-2,766
(Inc)/Dec in WC	-2,306	-1,121	1,299	3,755	-388	-874	-962	-203
CF from Operations	**6,993**	**5,180**	**9,057**	**12,745**	**10,081**	**8,504**	**9,268**	**12,247**
EO expense	-5	230	0	238	20	-87	0	0
CF from Operating incl EO	**6,989**	**5,410**	**9,057**	**12,983**	**10,101**	**8,417**	**9,268**	**12,247**
(inc)/dec in FA	-3,888	-5,507	-3,550	-1,903	-2,492	-4,000	-5,000	-11,800
Free Cash Flow	**3,101**	**-97**	**5,507**	**11,080**	**7,609**	**4,417**	**4,268**	**447**
(Pur)/Sale of Investments	7	-176	-724	-158	-174	1,000	0	0
CF from investments	**-3,881**	**-5,684**	**-4,274**	**-2,060**	**-2,666**	**-3,000**	**-5,000**	**-11,800**
Issue of Shares	2	15	-378	-109	818	-2	0	0
(Inc)/Dec in Debt	-434	2,330	-1,881	-5,889	-6,982	-3,000	-3,000	0
Interest Paid	-1,785	-1,881	-1,938	-1,819	-1,035	-592	-548	-516
Dividend Paid	-830	-279	-415	-830	-830	-1,095	-1,095	-1,106
CF from Fin. Activity	**-3,047**	**184**	**-4,612**	**-8,646**	**-8,030**	**-4,690**	**-4,643**	**-1,622**
Inc/Dec of Cash	**61**	**-89**	**171**	**2,277**	**-595**	**727**	**-375**	**-1,176**
Add: Beginning Balance	475	536	447	618	908	1,181	1,908	1,533
Closing Balance	**536**	**447**	**618**	**2,895**	**313**	**1,908**	**1,533**	**357**

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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