The Ramco Cements

Strong operational beat; Stretched valuations limit the upside

Q4FY18 Result Update

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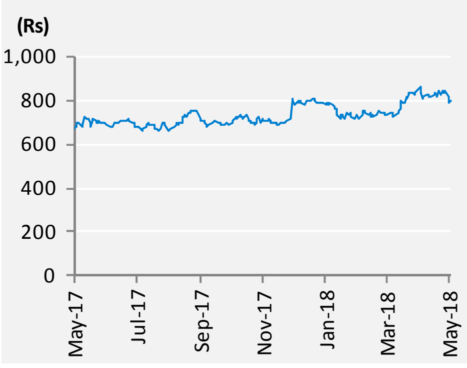
Rating	**Accumulate**
Price	Rs798
Target Price	Rs890
Implied Upside	11.5%
Sensex	34,345
Nifty	10,430

(Prices as on May 23, 2018)

Trading data			
Market Cap. (Rs bn)			187.9
Shares o/s (m)			235.5
3M Avg. Daily value (Rs m)			258.3
Major shareholders			
Promoters			46.16%
Foreign			13.12%
Domestic Inst.			20.35%
Public & Other			20.39%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(6.7)	12.3	17.4
Relative	(6.4)	10.0	4.3
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2019	29.3	29.8	*-1.5*
2020	36.2	39.4	*-7.9*

Price Performance (RIC: TRCE.BO, BB: TRCL IN)



Source: Bloomberg

The Ramco Cements (TRCL) reported Q4FY18 EBITDA above our expectation on the back of lower costs and higher volumes. However, PAT came in line with our expectation due to high tax rate.

Led by highly efficient operations, TRCL continued to perform better than market despite sharp increase in costs and pressure on prices. Street has apprehensions on company's ongoing capacity addition in Eastern region that it would face headwinds on margins due to intense competition and large capacity addition from the peers in the region. However, we believe that these capacities would generate strong margins at par with existing operations backed by highly competitive logistics network and blending advantage. TRCL remains the best play on Southern region; stretched valuations limits material upside from current levels. Hence, we maintain Accumulate with a TP of Rs890, EV/EBITDA of 16x FY20E.

- **Higher than expected volume and cost control drove the beat:** Cement volumes grew by 20% YoY at 2.74mn (PLe:2.65mn) tonnes (t). Strong growth in Eastern region, AP and Telangana helped company to report strong growth in volumes. Demand started reviving in Tamil Nadu with the ease of sand shortage. Realisations fell 3%/Rs35 QoQ (↑2.7% YoY/Rs122) at Rs4,570 (PLe:Rs4,585). Total cost/t rose 8%/Rs275 YoY at Rs3,590, below our estimate of Rs3,640 on account of lower than expected energy cost offset by increase in freight cost. Led by higher scale and lower than expected costs, EBITDA/t came above our estimate at Rs980 (PLe:Rs946), down 13.4% YoY. Hence, EBITDA grew 4% YoY at Rs2.7bn (PLe:Rs2.5bn). Impacted by sharp increase in tax rate (33% v/s 22% YoY, PLe:24%), growth in PAT restricted to 2% YoY at Rs1.37bn (PLe:Rs1.39bn).

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	38,568	43,148	50,183	59,399
Growth (%)	*10.0*	*11.9*	*16.3*	*18.4*
EBITDA (Rs m)	11,019	10,186	11,100	13,683
PAT (Rs m)	6,493	6,073	6,913	8,537
EPS (Rs)	27.3	25.8	29.3	36.2
Growth (%)	*29.6*	*(5.5)*	*13.8*	*23.5*
Net DPS (Rs)	1.0	1.0	1.0	1.0

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	*28.6*	*23.6*	*22.1*	*23.0*
RoE (%)	*19.0*	*15.5*	*15.7*	*16.7*
RoCE (%)	*13.8*	*12.4*	*13.1*	*14.6*
EV / EBITDA (x)	18.4	19.5	18.1	14.4
EV / Tonne ($)	192.4	188.5	190.6	156.6
PE (x)	29.3	31.0	27.2	22.0
P / BV (x)	5.1	4.6	4.0	3.4
Net dividend yield (%)	*0.1*	*0.1*	*0.1*	*0.1*

Source: Company Data; PL Research

Exhibit 1: Q3FY18 Result Overview (Rs m)

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
Net Sales	**12,508**	**10,132**	***23.4***	**10,475**	**43,181**	**38,568**	***12.0***
Raw Material	2,313	1,800	*28.5*	2,058	7,630	6,704	*13.8*
% of Net Sales	*18.5*	*17.8*		*19.6*	*17.7*	*17.4*	
Staff Costs	738	673	*9.7*	759	3,040	2,777	*9.5*
% of Net Sales	*5.9*	*6.6*		*7.2*	*7.0*	*7.2*	
Power & Fuel	2,176	1,385	*57.1*	1,708	7,291	5,164	*41.2*
% of Net Sales	*17.4*	*13.7*		*16.3*	*16.9*	*13.4*	
Freight and selling expenses	2,912	2,052	*41.9*	2,262	9,281	7,383	*25.7*
% of Net Sales	*23.3*	*20.3*		*21.6*	*21.5*	*19.1*	
Other Expenses	1,687	1,644	*2.6*	1,471	5,952	5,521	*7.8*
% of Net Sales	*13.5*	*16.2*		*14.0*	*13.8*	*14.3*	
Total Expenditure	9,826	7,554	*30.1*	8,258	33,193	27,549	*20.5*
EBITDA	**2,682**	**2,578**	***4.0***	**2,217**	**9,988**	**11,019**	***(9.4)***
Margin (%)	*21.4*	*25.4*		*21.2*	*23.1*	*28.6*	
Depreciation	754	854	*(11.6)*	730	2,922	2,845	*2.7*
Other income	230	195	*18.2*	140	1,249	1,363	*(8.4)*
EBIT	**2,158**	**1,919**	***12.4***	**1,628**	**8,315**	**9,537**	***(12.8)***
Interest	105	201	*(48.0)*	160	592	1,035	*(42.8)*
PBT	**2,053**	**1,718**	***19.5***	**1,467**	**7,723**	**8,502**	***(9.2)***
Extraordinary income/(expense)	-	-		(30)	124	-	
PBT (After EO)	2,053	1,718	*19.5*	1,437	7,847	8,502	*(7.7)*
Tax	679	373	*81.9*	364	2,079	2,009	*3.5*
% PBT	*33.1*	*21.7*		*25.4*	*26.5*	*23.6*	
Reported PAT	**1,086**	**1,345**	***(19.2)***	**1,073**	**5,557**	**6,493**	***(14.4)***
Adjusted PAT	**1,374**	**1,345**	***2.2***	**1,114**	**5,673**	**6,493**	***(12.6)***

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q4FY18	Q4FY17	YoY gr. (%)	Q3FY18	FY18	FY17	YoY gr. (%)
Volume (m te)-Cement	2.74	2.28	*20.2*	2.27	9.31	8.35	*11.5*
Cement Realisations (Rs/te)	4,571	4,450	*2.7*	4,606	4,637	4,619	*0.4*
Cement EBITDA/ te (Rs/te)	980	1,132	*(13.4)*	975	1,073	1,320	*(18.7)*

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	**38,568**	**43,148**	**50,183**	**59,399**
Raw Material Expenses	6,704	7,325	8,739	10,448
Gross Profit	31,864	35,823	41,445	48,951
Employee Cost	2,777	3,055	3,361	3,697
Other Expenses	18,068	22,582	26,985	31,572
EBITDA	**11,019**	**10,186**	**11,100**	**13,683**
Depr. & Amortization	2,845	2,867	2,913	3,301
Net Interest	1,035	683	598	512
Other Income	1,363	1,518	1,628	1,514
Profit before Tax	**8,502**	**8,154**	**9,217**	**11,383**
Total Tax	2,009	1,957	2,304	2,846
Profit after Tax	**6,493**	**6,197**	**6,913**	**8,537**
Ex-Od items / Min. Int.	—	124	—	—
Adj. PAT	**6,493**	**6,073**	**6,913**	**8,537**
Avg. Shares O/S (m)	**238.1**	**235.6**	**235.6**	**235.6**
EPS (Rs.)	**27.3**	**25.8**	**29.3**	**36.2**

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	37,415	41,080	47,142	54,829
Total Debt	14,248	12,248	10,748	8,748
Other Liabilities	7,396	7,559	7,836	8,177
Total Liabilities	**59,059**	**60,888**	**65,726**	**71,755**
Net Fixed Assets	53,097	53,680	61,417	63,916
Goodwill	—	—	—	—
Investments	1,483	1,483	1,483	1,483
Net Current Assets	4,480	5,725	2,826	6,355
Cash & Equivalents	*1,181*	*1,295*	*(2,390)*	*363*
Other Current Assets	*14,328*	*14,951*	*17,312*	*20,009*
Current Liabilities	*11,030*	*10,521*	*12,095*	*14,017*
Other Assets	—	—	—	—
Total Assets	**59,059**	**60,888**	**65,726**	**71,755**

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	11,053	8,448	9,453	11,688
C/F from Investing	(2,764)	(3,119)	(10,190)	(5,571)
C/F from Financing	(6,586)	(5,215)	(2,948)	(3,363)
Inc. / Dec. in Cash	1,704	114	(3,685)	2,753
Opening Cash	(1,845)	(136)	(22)	(3,707)
Closing Cash	(142)	(22)	(3,707)	(954)
FCFF	7,298	6,509	7,739	(1,237)
FCFE	315	4,509	6,239	(3,237)

Quarterly Financials (Rs m)

Y/e March	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Revenue	**9,905**	**10,293**	**10,475**	**12,508**
EBITDA	**2,522**	**2,568**	**2,217**	**2,682**
% of revenue	*25.5*	*24.9*	*21.2*	*21.4*
Depr. & Amortization	720	718	730	754
Net Interest	(281)	(271)	20	(125)
Other Income	435	443	140	230
Profit before Tax	**2,082**	**2,120**	**1,467**	**2,053**
Total Tax	524	512	287	967
Profit after Tax	**1,558**	**1,685**	**1,227**	**1,086**
Adj. PAT	**1,558**	**1,626**	**1,114**	**1,374**

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	10.0	11.9	16.3	18.4
EBITDA (%)	9.5	(7.6)	9.0	23.3
PAT (%)	29.6	(6.5)	13.8	23.5
EPS (%)	29.6	(5.5)	13.8	23.5
Profitability				
EBITDA Margin (%)	28.6	23.6	22.1	23.0
PAT Margin (%)	16.8	14.1	13.8	14.4
RoCE (%)	13.8	12.4	13.1	14.6
RoE (%)	19.0	15.5	15.7	16.7
Balance Sheet				
Net Debt : Equity	0.3	0.3	0.3	0.2
Net Wrkng Cap. (days)	(207)	(128)	(109)	(102)
Valuation				
PER (x)	29.3	31.0	27.2	22.0
P / B (x)	5.1	4.6	4.0	3.4
EV / EBITDA (x)	18.4	19.5	18.1	14.4
EV / Sales (x)	5.3	4.6	4.0	3.3
Earnings Quality				
Eff. Tax Rate	23.6	24.0	25.0	25.0
Other Inc / PBT	16.0	17.4	17.7	13.3
Eff. Depr. Rate (%)	3.5	3.5	3.5	3.5
FCFE / PAT	4.9	74.2	90.3	(37.9)

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2017	2018	2019E	2020E
Volume (mn te)-Cement	8.3	9.2	10.6	12.2
Cement Realisations-Cement (Rs/te)	4,620.0	4,693.0	4,746.3	4,885.2
Cement EBITDA (Rs/te)	1,298.0	1,107.9	1,049.8	1,125.3
Raw material cost (Rs/te)	785.2	796.7	826.5	859.3
Power & Fuel cost (Rs/te)	621.1	837.1	886.2	887.0
Freight cost (Rs/te)	884.4	944.3	982.1	1,011.5

Source: Company Data, PL Research.

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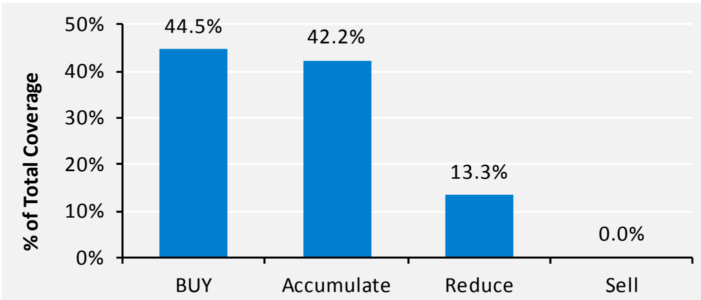

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