Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

The Ramco Cements (TRCL IN)

Rating: HOLD | CMP: Rs693 | TP: Rs735

August 2, 2018

Q1FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	HOLD		HOLD	
Target Price	735		790	
Sales (Rs. m)	50,795	60,344	50,085	58,711
% Chng.			*1.4*	*2.8*
EBITDA (Rs. m)	9,612	12,142	11,002	13,000
% Chng.			*(12.6)*	*(6.6)*
EPS (Rs.)	22.6	29.7	29.0	34.0
% Chng.			*(22.0)*	*(12.6)*

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	38,568	43,181	50,795	60,344
EBITDA (Rs. m)	11,019	10,113	9,612	12,142
Margin (%)	*28.6*	*23.4*	*18.9*	*20.1*
PAT (Rs. m)	6,493	5,557	5,335	6,998
EPS (Rs.)	27.3	23.6	22.6	29.7
Gr. (%)	*29.6*	*(13.5)*	*(4.0)*	*31.2*
DPS (Rs.)	1.0	1.0	1.0	1.0
Yield (%)	*0.1*	*0.1*	*0.1*	*0.1*
RoE (%)	*19.0*	*14.3*	*12.5*	*14.6*
RoCE (%)	*15.7*	*13.9*	*12.0*	*14.5*
EV/Sales (x)	4.6	4.0	3.5	2.9
EV/EBITDA (x)	16.2	17.1	18.3	14.2
PE (x)	25.4	29.4	30.6	23.3
P/BV (x)	4.4	4.0	3.6	3.2

Key Data	TRCE.BO | TRCL IN
52-W High / Low	Rs.879 / Rs.615
Sensex / Nifty	37,165 / 11,245
Market Cap	Rs.163bn/ $ 2,377m
Shares Outstanding	236m
3M Avg. Daily Value	Rs.491.05m

Shareholding Pattern (%)

Promoter's	42.75
Foreign	12.73
Domestic Institution	20.89
Public & Others	23.63
Promoter Pledge (Rs bn)	1.25

Stock Performance (%)

	1M	6M	12M
Absolute	(1.2)	(5.9)	(0.9)
Relative	(6.3)	(11.2)	(13.4)

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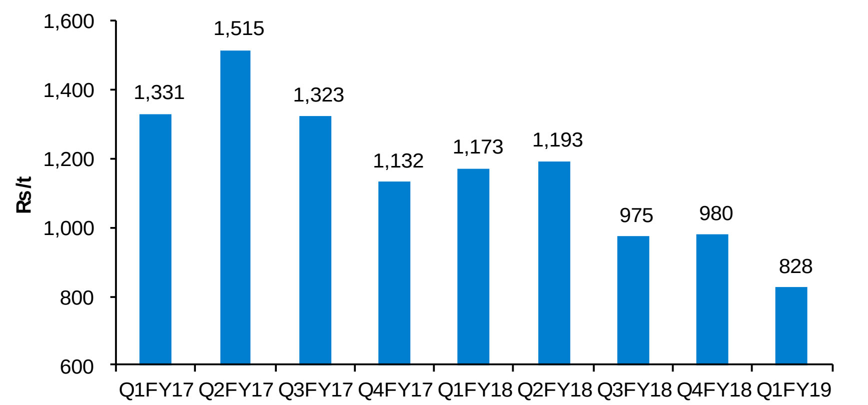
Weak performance across the fronts; Maintain Hold

The Ramco Cements (TRCL) reported Q1FY19 significantly below our expectation with miss across the fronts. Steep increase in energy and freight cost pulled down margins by ~29% YoY, diluting the benefit of high scale. Weakness in realisations further aggravated the slide in margins. Price hike undertaken in last couple of months would help TRCL to expand the margins from Q1 levels. However, given the high price levels in Tamil Nadu and Kerala and high competitive intensity in AP and Telangana, price hikes would fail to outpace the increase in costs. In this backdrop, we cut our earnings estimates for FY19e/FY20e estimate by 23%/15%.

Led by highly efficient operations and strong B/S, TRCL remains the best play in Southern region. Despite high costs and intense competition in the region, TRCL would generate margins upwards of Rs950/t (2x of its regional peers) in FY20e with double digit volume growth. 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. Despite steep correction in the stock price, valuations remain stretched. We maintain Hold with a TP of Rs735, EV/EBITDA of 15x FY20E.

- **Higher cost and weaker realisations plays the spoilsport:** Cement volumes grew 21.6% YoY at 2.61mn (PLe:2.65mn) tonnes (t) due to sand mining issues in Tamil Nadu and low base. Impacted by intense competition, Realisations fell 1.5%/Rs70/t YoY (↓0.8%/Rs35/t QoQ) to Rs4,535/t below our estimate of Rs4,585/t. Impacted by 25%/20% increase in energy/freight cost, total cost/t rose 8%/Rs275 YoY to Rs3,710 (PLe:Rs3,640). Marred by higher than expected costs and weaker realisations, EBITDA/t fell short of our estimate by 10% at Rs828 (PLe:Rs945), down 29.4%. EBITDA fell 14% YoY to Rs2.16bn (PLe:Rs2.46bn). Hit by 28% fall in income from sale of wind power and higher tax rate, PAT fell 20% YoY to Rs1.25bn (PLe:Rs1.39bn).

Exhibit 1: EBITDA/t fell to 9-quarter lows



Source: Company, PL

Exhibit 2: Q1FY19 Result Overview (Rs m)

Y/e March (Rs mn)	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Net Sales	**11,860**	**9,905**	***19.7***	**12,508**	**50,795**	**43,181**	***17.6***
Raw Material	1,808	1,591	*13.6*	2,313	8,803	7,630	*15.4*
% of Net Sales	*15.2*	*16.1*		*18.5*	*17.3*	*17.7*	
Staff Costs	820	749	*9.4*	738	3,329	3,040	*9.5*
% of Net Sales	*6.9*	*7.6*		*5.9*	*6.6*	*7.0*	
Power & Fuel	2,563	1,681	*52.4*	2,176	10,518	7,291	*44.3*
% of Net Sales	*21.6*	*17.0*		*17.4*	*20.7*	*16.9*	
Freight and selling expenses	2,935	1,999	*46.8*	2,912	11,628	9,281	*25.3*
% of Net Sales	*24.7*	*20.2*		*23.3*	*22.9*	*21.5*	
Other Expenses	1,571	1,363	*15.3*	1,687	6,906	5,952	*16.0*
% of Net Sales	13.2	13.8		13.5	13.6	13.8	
Total Expenditure	9,696	7,384	*31.3*	9,826	41,184	33,193	*24.1*
EBITDA	**2,164**	**2,522**	***(14.2)***	**2,682**	**9,612**	**9,988**	***(3.8)***
Margin (%)	*18.2*	*25.5*		*21.4*	*18.9*	*23.1*	
Depreciation	735	720	*2.0*	754	3,010	2,922	*3.0*
Other income	388	435	*(10.8)*	230	1,260	1,249	*0.9*
EBIT	**1,817**	**2,237**	***(18.8)***	**2,158**	**7,862**	**8,315**	***(5.5)***
Interest	114	155	*(26.0)*	105	652	592	*10.1*
PBT	**1,703**	**2,082**	***(18.2)***	**2,053**	**7,210**	**7,723**	***(6.6)***
Extraordinary income/(expense)	-	-		288	-	124	
PBT (After EO)	**1,703**	**2,082**	***(18.2)***	**2,341**	**7,210**	**7,847**	***(8.1)***
Tax	453	524	*(13.5)*	679	1,874	2,290	*(18.1)*
% PBT	*26.6*	*25.2*		*29.0*	*26.0*	*29.2*	
Reported PAT	**1,250**	**1,558**	***(19.8)***	**1,662**	**5,335**	**5,557**	***(4.0)***
Adjusted PAT	**1,250**	**1,558**	***(19.8)***	**1,374**	**5,335**	**5,673**	***(6.0)***

Source: Company, PL

Exhibit 3: Operating Metrics

Y/e March (Rs mn)	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Volume (mn te)-Cement	2.6	2.2	*21.6*	2.7	10.9	9.3	*16.5*
Cement Realisations (Rs/te)	4,537	4,607	*(1.5)*	4,571	4,681	4,637	*0.9*
Cement EBITDA/ te (Rs/te)	828	1,173	*(29.4)*	980	886	1,073	*(17.4)*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	**38,568**	**43,181**	**50,795**	**60,344**
YoY gr. (%)	*10.0*	*12.0*	*17.6*	*18.8*
Cost of Goods Sold	6,704	7,206	8,803	10,478
Gross Profit	31,864	35,976	41,993	49,865
Margin (%)	*82.6*	*83.3*	*82.7*	*82.6*
Employee Cost	2,777	3,040	3,329	3,645
Other Expenses	5,521	6,252	6,906	8,032
EBITDA	**11,019**	**10,113**	**9,612**	**12,142**
YoY gr. (%)	*9.5*	*(8.2)*	*(5.0)*	*26.3*
Margin (%)	*28.6*	*23.4*	*18.9*	*20.1*
Depreciation and Amortization	2,845	2,922	3,010	3,397
EBIT	**8,174**	**7,191**	**6,601**	**8,745**
Margin (%)	*21.2*	*16.7*	*13.0*	*14.5*
Net Interest	1,035	592	652	689
Other Income	1,363	1,249	1,260	1,402
Profit Before Tax	**8,502**	**7,847**	**7,210**	**9,457**
Margin (%)	*22.0*	*18.2*	*14.2*	*15.7*
Total Tax	2,009	2,363	1,874	2,459
Effective tax rate (%)	*23.6*	*30.1*	*26.0*	*26.0*
Profit after tax	**6,493**	**5,484**	**5,335**	**6,998**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**6,493**	**5,557**	**5,335**	**6,998**
YoY gr. (%)	*29.6*	*(14.4)*	*(4.0)*	*31.2*
Margin (%)	*16.8*	*12.9*	*10.5*	*11.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**6,493**	**5,484**	**5,335**	**6,998**
YoY gr. (%)	*28.0*	*(15.5)*	*(2.7)*	*31.2*
Margin (%)	*16.8*	*12.7*	*10.5*	*11.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,493	5,484	5,335	6,998
Equity Shares O/s (m)	**238**	**236**	**236**	**236**
EPS (Rs)	**27.3**	**23.6**	**22.6**	**29.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	**80,574**	**84,281**	**85,581**	**102,131**
Tangibles	80,574	84,281	85,581	102,131
Intangibles	-	-	-	-
Acc: Dep / Amortization	**28,743**	**31,300**	**34,310**	**37,707**
Tangibles	28,743	31,300	34,310	37,707
Intangibles	-	-	-	-
Net fixed assets	**51,830**	**52,981**	**51,271**	**64,423**
Tangibles	51,830	52,981	51,271	64,423
Intangibles	-	-	-	-
Capital Work In Progress	1,267	2,179	10,806	1,021
Goodwill	-	-	-	-
Non-Current Investments	2,044	2,168	2,203	2,238
Net Deferred tax assets	(7,281)	(7,597)	(7,813)	(8,097)
Other Non-Current Assets	762	594	594	594
Current Assets				
Investments	-	-	-	-
Inventories	5,754	5,599	6,958	8,266
Trade receivables	5,549	4,423	5,427	6,448
Cash & Bank Balance	1,181	1,194	796	1,511
Other Current Assets	1,117	878	827	805
Total Assets	**70,089**	**70,904**	**79,797**	**86,451**
Equity				
Equity Share Capital	238	236	236	236
Other Equity	37,177	40,186	44,670	50,817
Total Networth	**37,415**	**40,422**	**44,905**	**51,052**
Non-Current Liabilities				
Long Term borrowings	14,248	11,132	13,132	11,132
Provisions	36	87	87	87
Other non current liabilities	115	127	127	127
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,558	2,671	3,201	3,802
Other current liabilities	8,436	8,869	10,533	12,155
Total Equity & Liabilities	**70,089**	**70,904**	**79,797**	**86,451**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	8,502	7,847	7,210	9,457
Add. Depreciation	2,845	2,922	3,010	3,397
Add. Interest	1,035	592	652	689
Less Financial Other Income	1,363	1,249	1,260	1,402
Add. Other	(282)	(82)	(389)	(428)
Op. profit before WC changes	12,100	11,278	10,483	13,115
Net Changes-WC	848	1,564	(181)	(347)
Direct tax	(1,894)	(1,713)	(1,658)	(2,175)
Net cash from Op. activities	**11,053**	**11,129**	**8,644**	**10,593**
Capital expenditures	(3,043)	(4,942)	(9,928)	(6,765)
Interest / Dividend Income	-	164	297	332
Others	285	22	92	96
Net Cash from Invt. activities	**(2,758)**	**(4,756)**	**(9,539)**	**(6,337)**
Issue of share cap. / premium	-	(1,681)	-	-
Debt changes	(5,496)	(4,682)	2,000	(2,000)
Dividend paid	-	(852)	(852)	(852)
Interest paid	(1,090)	(658)	(652)	(689)
Others	-	-	-	-
Net cash from Fin. activities	**(6,586)**	**(7,872)**	**496**	**(3,541)**
Net change in cash	**1,709**	**(1,499)**	**(398)**	**716**
Free Cash Flow	11,053	11,129	8,644	10,593

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	**10,293**	**10,475**	**12,508**	**11,860**
YoY gr. (%)	*6.1*	*12.5*	*23.4*	*19.7*
Raw Material Expenses	1,668	2,058	2,313	1,808
Gross Profit	8,625	8,417	10,195	10,052
Margin (%)	*83.8*	*80.4*	*81.5*	*84.8*
EBITDA	**2,568**	**2,217**	**2,682**	**2,164**
YoY gr. (%)	*1.8*	*(13.6)*	*20.9*	*(19.3)*
Margin (%)	*24.9*	*21.2*	*21.4*	*18.2*
Depreciation / Depletion	718	730	754	735
EBIT	**1,850**	**1,488**	**1,928**	**1,429**
Margin (%)	*18.0*	*14.2*	*15.4*	*12.1*
Net Interest	173	160	105	114
Other Income	443	140	230	388
Profit before Tax	**2,120**	**1,467**	**2,053**	**1,703**
Margin (%)	*20.6*	*14.0*	*16.4*	*14.4*
Total Tax	512	287	967	453
Effective tax rate (%)	*24.1*	*19.6*	*47.1*	*26.6*
Profit after Tax	**1,609**	**1,180**	**1,086**	**1,250**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,626**	**1,114**	**1,374**	**1,250**
YoY gr. (%)	*(21.4)*	*(26.6)*	*2.2*	*(19.8)*
Margin (%)	*15.8*	*10.6*	*11.0*	*10.5*
Extra Ord. Income / (Exp)	59	113	(288)	-
Reported PAT	**1,685**	**1,227**	**1,086**	**1,250**
YoY gr. (%)	*(18.6)*	*(19.2)*	*(19.2)*	*(19.8)*
Margin (%)	*16.4*	*11.7*	*8.7*	*10.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,685**	**1,227**	**1,086**	**1,250**
Avg. Shares O/s (m)	24	24	24	24
EPS (Rs)	**68.3**	**46.8**	**57.7**	**52.5**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	27.3	23.6	22.6	29.7
CEPS	39.2	36.0	35.4	44.1
BVPS	157.1	171.6	190.6	216.7
FCF	46.4	47.2	36.7	45.0
DPS	1.0	1.0	1.0	1.0
Return Ratio(%)				
RoCE	15.7	13.9	12.0	14.5
ROIC	12.3	10.0	9.0	11.0
RoE	19.0	14.3	12.5	14.6
Balance Sheet				
Net Debt : Equity (x)	0.3	0.2	0.3	0.2
Net Working Capital (Days)	83	62	66	66
Valuation(x)				
PER	25.4	29.4	30.6	23.3
P/B	4.4	4.0	3.6	3.2
P/CEPS	39.2	36.0	35.4	44.1
EV/EBITDA	16.2	17.1	18.3	14.2
EV/Sales	4.6	4.0	3.5	2.9
Dividend Yield (%)	0.1	0.1	0.1	0.1

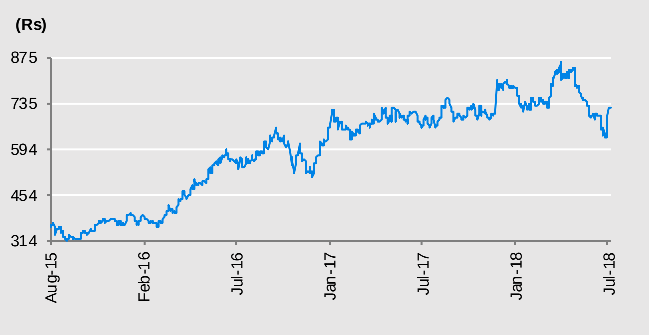
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Volume (mn te)-Cement	8	9	11	13
Cement Realisations-Cement (Rs/te)	4,620	4,637	4,681	4,794
Cement EBITDA (Rs/te)	1,320	1,086	886	965
Raw material cost (Rs/te)	766	774	811	832
Power & Fuel cost (Rs/te)	619	783	969	965
Freight cost (Rs/te)	884	997	1,072	1,104

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Aug-17	Accumulate	710	689
2	9-Oct-17	Accumulate	734	705
3	2-Nov-17	Accumulate	735	720
4	10-Jan-18	Accumulate	900	802
5	6-Feb-18	Accumulate	830	732
6	13-Apr-18	Accumulate	828	831
7	23-May-18	Accumulate	890	798
8	12-Jun-18	Hold	790	747
9	10-Jul-18	Hold	790	704

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,750	1,311
2	Ambuja Cement	Accumulate	250	208
3	Coal India	BUY	340	261
4	Heidelberg Cement India	BUY	200	159
5	Hindalco Industries	Accumulate	260	207
6	Hindustan Zinc	Accumulate	340	277
7	Jindal Steel & Power	BUY	330	209
8	JK Lakshmi Cement	Accumulate	381	314
9	JSW Steel	BUY	450	317
10	NMDC	Accumulate	145	105
11	Shree Cement	Hold	17,235	15,978
12	Steel Authority of India	Hold	86	81
13	Tata Steel	BUY	727	566
14	The Ramco Cements	Hold	790	704
15	Ultratech Cement	Hold	4,000	3,849

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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