

The Ramco Cements (TRCL IN)

Rating: HOLD | CMP: Rs738 | TP: Rs750

August 8, 2019

Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	750		820	
Sales (Rs. m)	55,698	62,745	58,152	66,837
% Chng.	(4.2)	(6.1)		
EBITDA (Rs. m)	13,752	14,246	13,818	15,673
% Chng.	(0.5)	(9.1)		
EPS (Rs.)	34.4	33.4	34.9	38.6
% Chng.	(1.4)	(13.3)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	43,181	50,602	55,698	62,745
EBITDA (Rs. m)	10,113	9,705	13,752	14,246
Margin (%)	23.4	19.2	24.7	22.7
PAT (Rs. m)	5,484	5,118	8,103	7,880
EPS (Rs.)	23.3	21.7	34.4	33.4
Gr. (%)	(14.6)	(6.7)	58.3	(2.8)
DPS (Rs.)	3.0	3.0	3.0	3.0
Yield (%)	0.4	0.4	0.4	0.4
RoE (%)	14.1	12.0	16.8	14.3
RoCE (%)	13.9	12.0	15.9	14.5
EV/Sales (x)	4.3	3.7	3.5	3.0
EV/EBITDA (x)	18.2	19.5	14.0	13.3
PE (x)	31.7	34.0	21.5	22.1
P/BV (x)	4.3	3.9	3.4	3.0

Key Data

TRCE.BO | TRCL IN

52-W High / Low	Rs.845 / Rs.546
Sensex / Nifty	36,691 / 10,856
Market Cap	Rs.174bn / \$ 2,454m
Shares Outstanding	236m
3M Avg. Daily Value	Rs.430.94m

Shareholding Pattern (%)

Promoter's	42.75
Foreign	11.99
Domestic Institution	22.91
Public & Others	22.35
Promoter Pledge (Rs bn)	1.43

Stock Performance (%)

	1M	6M	12M
Absolute	(5.1)	19.6	11.0
Relative	2.2	20.5	14.0

Kamlesh Bagmar

kamleshbagmar@plindia.com | 91-22-66322237

Amit Khimesra

amitkhimesra@plindia.com | 91-22-66322244

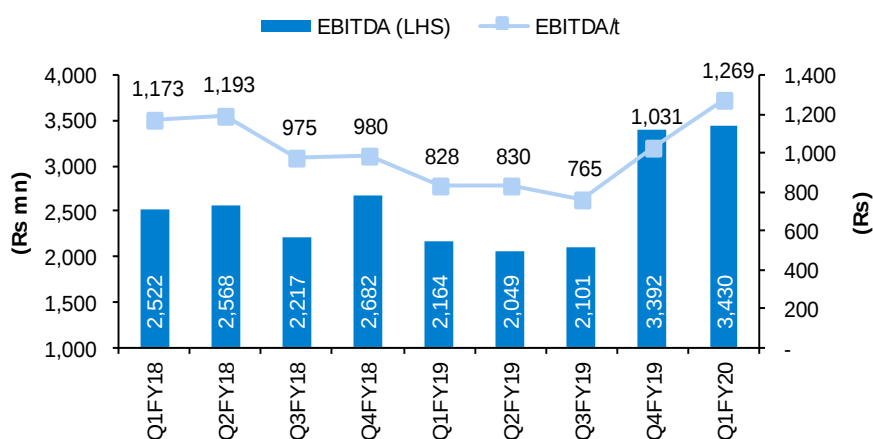
Earnings in line; peaked-out margins drive earnings downgrade

The Ramco Cements (TRCL) reported Q1FY20 earnings in line with our expectation. EBITDA/t rose 53% YoY (PL:50% YoY) on the back of 10% increase in realisations and flat costs.

We believe that TRCL's margins peaked-out in Q1 as the competition for volumes intensified in South region post July in wake of weak discipline and high price levels. The upcoming new supplies of Chettinad cement, Penna and TRCL would further weaken prices in the region. Sharp fall of ~20% in pet coke/thermal coal prices over last six months would reduce costs for cement companies by Rs150/t in H2FY20E. However, weakness in prices (due to intense competition) would more than dilute the tail wind on costs and hence, would keep margins under pressure in FY20E/FY21E. We cut our EBITDA estimates for FY21E by 9% to factor in lower prices. In light of expensive valuation and pressure on margins, we maintain Hold with a TP of Rs750 (earlier Rs820), EV/EBITDA of 13x FY21E.

- Realisations drove the growth in earnings:** Cement volumes grew 3.4% YoY at 2.7mnt (PL:2.7mnt) on the back of strong volume push in Telangana, and Eastern region. Led by strong discipline, Realisations rose 8%/Rs350/t QoQ (up 10%/Rs450/t YoY) to Rs4,990/t (PL:4,980/t). On the back of lower freight cost, total cost remained flat YoY at Rs3720 (PL:Rs3,740). Led by 10% increase in realisations and flat costs, EBITDA/t rose 53% YoY to Rs1,270 (PL:Rs1,240). EBITDA rose 59% YoY to Rs3.43bn (PL:Rs3.39bn). Driven by better operating performance, Adj. PAT rose 64% YoY to Rs2.1bn (PL:Rs2.0bn).
- On track to reach 20mn tonnes by FY21E:** Ongoing capacity expansion of 1mnt/0.9mnt/1.1mnt grinding unit at West Bengal/Odisha/AP is expected to commission by Aug'19/Oct'19/Mar'20. Post completion of these projects, TRCL's cement capacity would increase to 20mnt from existing 17mnt.

Exhibit 1: Q1FY20 margins at highest levels in past 9-quarters



Source: Company, PL

Exhibit 2: Q1FY20 Result Overview

Y/e March (Rs mn)	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	13,486	11,860	13.7	15,265	55,698	50,602	10.1
Raw Material	2,009	1,808	11.1	2,805	8,744	8,469	3.2
<i>% of Net Sales</i>	<i>14.9</i>	<i>15.2</i>		<i>18.4</i>	<i>15.7</i>	<i>16.7</i>	
Staff Costs	884	820	7.8	823	3,591	3,295	9.0
<i>% of Net Sales</i>	<i>6.6</i>	<i>6.9</i>		<i>5.4</i>	<i>6.4</i>	<i>6.5</i>	
Power & Fuel	2,661	2,563	3.8	2,938	9,618	10,573	(9.0)
<i>% of Net Sales</i>	<i>19.7</i>	<i>21.6</i>		<i>19.2</i>	<i>17.3</i>	<i>20.9</i>	
Freight and selling expenses	2,811	2,935	(4.2)	3,454	12,718	11,880	7.1
<i>% of Net Sales</i>	<i>20.8</i>	<i>24.7</i>		<i>22.6</i>	<i>22.8</i>	<i>23.5</i>	
Other Expenses	1,692	1,571	7.7	1,853	7,275	6,681	8.9
<i>% of Net Sales</i>	<i>12.5</i>	<i>13.2</i>		<i>12.1</i>	<i>13.1</i>	<i>13.2</i>	
Total Expenditure	10,056	9,696	3.7	11,873	41,946	40,897	2.6
EBITDA	3,430	2,164	58.5	3,392	13,752	9,705	41.7
<i>Margin (%)</i>	<i>25.4</i>	<i>18.2</i>		<i>22.2</i>	<i>24.7</i>	<i>19.2</i>	
Depreciation	758	735	3.2	767	3,201	2,985	7.2
Other income	435	388	12.0	170	1,611	1,145	40.7
EBIT	3,107	1,817	71.0	2,795	12,162	7,865	54.6
Interest	135	114	18.2	128	981	509	92.9
PBT	2,972	1,703	74.5	2,667	11,180	7,356	52.0
Extraordinary income/(expense)	(190)	-		(122)	(190)	(200)	
PBT (After EO)	2,782	1,703	63.3	2,545	10,990	7,156	53.6
Tax	862	453	90.2	735	3,077	2,097	46.8
<i>% PBT</i>	<i>31.0</i>	<i>26.6</i>		<i>28.9</i>	<i>28.0</i>	<i>29.3</i>	
Reported PAT	1,920	1,250	53.6	1,810	7,913	5,059	56.4
Adjusted PAT	2,051	1,250	64.1	1,868	8,050	5,274	52.6

Source: Company, PL

Exhibit 3: Key Operating Metrics

Y/e March (Rs mn)	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Volume (mn te)-Cement	2.7	2.6	3.4	3.3	11.6	11.1	3.9
Cement Realisations (Rs/te)	4,989	4,537	10.0	4,640	4,821	4,551	5.9
Cement EBITDA/ te (Rs/te)	1,269	828	53.3	1,031	1,190	873	36.4

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	43,181	50,602	55,698	62,745
YoY gr. (%)	12.0	17.2	10.1	12.7
Cost of Goods Sold	7,166	8,367	8,744	10,287
Gross Profit	36,016	42,235	46,955	52,457
Margin (%)	83.4	83.5	84.3	83.6
Employee Cost	3,040	3,295	3,591	3,879
Other Expenses	6,292	6,782	7,275	8,397
EBITDA	10,113	9,705	13,752	14,246
YoY gr. (%)	(8.2)	(4.0)	41.7	3.6
Margin (%)	23.4	19.2	24.7	22.7
Depreciation and Amortization	2,922	2,985	3,201	3,533
EBIT	7,191	6,720	10,551	10,713
Margin (%)	16.7	13.3	18.9	17.1
Net Interest	592	509	981	1,242
Other Income	1,249	1,145	1,611	1,474
Profit Before Tax	7,847	7,156	10,990	10,945
Margin (%)	18.2	14.1	19.7	17.4
Total Tax	2,363	2,238	3,077	3,065
Effective tax rate (%)	30.1	31.3	28.0	28.0
Profit after tax	5,484	4,918	7,913	7,880
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,484	5,118	8,103	7,880
YoY gr. (%)	(15.5)	(6.7)	58.3	(2.8)
Margin (%)	12.7	10.1	14.5	12.6
Extra Ord. Income / (Exp)	-	(200)	(190)	-
Reported PAT	5,484	4,918	7,913	7,880
YoY gr. (%)	(15.5)	(10.3)	60.9	(0.4)
Margin (%)	12.7	9.7	14.2	12.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,484	4,918	7,913	7,880
Equity Shares O/s (m)	236	236	236	236
EPS (Rs)	23.3	21.7	34.4	33.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	84,281	87,466	99,166	106,366
Tangibles	84,281	87,466	99,166	106,366
Intangibles	-	-	-	-
Acc: Dep / Amortization	31,300	33,707	36,908	40,441
Tangibles	31,300	33,707	36,908	40,441
Intangibles	-	-	-	-
Net fixed assets	52,981	53,759	62,258	65,925
Tangibles	52,981	53,759	62,258	65,925
Intangibles	-	-	-	-
Capital Work In Progress	2,179	10,606	12,156	12,256
Goodwill	-	-	-	-
Non-Current Investments	2,168	2,264	2,278	2,292
Net Deferred tax assets	(7,951)	(8,704)	(9,144)	(9,582)
Other Non-Current Assets	594	694	694	694
Current Assets				
Investments	-	-	-	-
Inventories	5,599	5,597	6,867	7,736
Trade receivables	4,423	4,900	5,646	6,704
Cash & Bank Balance	1,194	928	1,314	1,662
Other Current Assets	903	1,127	1,152	1,210
Total Assets	70,929	81,082	93,751	100,137
Equity				
Equity Share Capital	236	236	236	236
Other Equity	40,186	44,366	51,426	58,453
Total Network	40,422	44,601	51,661	58,689
Non-Current Liabilities				
Long Term borrowings	11,132	16,187	20,187	17,687
Provisions	87	157	157	157
Other non current liabilities	127	131	131	131
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,671	2,572	3,052	3,438
Other current liabilities	8,539	8,730	9,475	10,509
Total Equity & Liabilities	70,929	81,082	93,807	100,192

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	7,847	7,156	11,180	10,945
Add. Depreciation	2,922	2,985	3,201	3,533
Add. Interest	592	509	981	1,242
Less Financial Other Income	1,249	1,145	1,611	1,474
Add. Other	(82)	(232)	(882)	(493)
Op. profit before WC changes	11,278	10,418	14,481	15,227
Net Changes-WC	1,564	(929)	(1,065)	(850)
Direct tax	(1,713)	(1,584)	(2,638)	(2,627)
Net cash from Op. activities	11,129	7,904	10,778	11,750
Capital expenditures	(4,942)	(12,018)	(13,250)	(7,300)
Interest / Dividend Income	164	112	599	395
Others	22	35	93	98
Net Cash from Invst. activities	(4,756)	(11,871)	(12,558)	(6,807)
Issue of share cap. / premium	(1,681)	-	-	-
Debt changes	(4,682)	7,755	4,000	(2,500)
Dividend paid	(852)	(853)	(853)	(853)
Interest paid	(658)	(476)	(981)	(1,242)
Others	-	-	-	-
Net cash from Fin. activities	(7,872)	6,426	2,166	(4,595)
Net change in cash	(1,499)	2,459	387	348
Free Cash Flow	11,129	7,904	10,778	11,750

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	11,413	12,065	15,265	13,486
YoY gr. (%)	10.9	15.2	22.0	13.7
Raw Material Expenses	1,854	2,002	2,805	2,009
Gross Profit	9,558	10,063	12,460	11,477
Margin (%)	83.8	83.4	81.6	85.1
EBITDA	2,049	2,101	3,392	3,430
YoY gr. (%)	(20.2)	(5.3)	26.5	58.5
Margin (%)	18.0	17.4	22.2	25.4
Depreciation / Depletion	728	756	767	758
EBIT	1,321	1,345	2,625	2,672
Margin (%)	11.6	11.1	17.2	19.8
Net Interest	131	135	128	135
Other Income	482	105	170	435
Profit before Tax	1,671	1,315	2,667	2,972
Margin (%)	14.6	10.9	17.5	22.0
Total Tax	464	304	813	871
Effective tax rate (%)	27.7	23.1	30.5	29.3
Profit after Tax	1,208	1,011	1,854	2,101
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,208	1,011	1,868	2,042
YoY gr. (%)	(25.7)	(9.3)	36.0	63.4
Margin (%)	10.6	8.4	12.2	15.1
Extra Ord. Income / (Exp)	-	-	(215)	(131)
Reported PAT	1,208	1,011	1,654	1,911
YoY gr. (%)	(28.3)	(17.7)	52.3	52.9
Margin (%)	10.6	8.4	10.8	14.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,208	1,011	1,654	1,911
Avg. Shares O/s (m)	238	238	238	238
EPS (Rs)	5.1	4.2	7.9	8.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	23.3	21.7	34.4	33.4
CEPS	35.7	34.4	48.0	48.4
BVPS	171.6	189.3	219.3	249.1
FCF	47.2	33.5	45.7	49.9
DPS	3.0	3.0	3.0	3.0
Return Ratio(%)				
RoCE	13.9	12.0	15.9	14.5
ROIC	10.0	8.4	11.7	10.6
RoE	14.1	12.0	16.8	14.3
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.4	0.3
Net Working Capital (Days)	62	57	62	64
Valuation(x)				
PER	31.7	34.0	21.5	22.1
P/B	4.3	3.9	3.4	3.0
P/CEPS	20.7	21.5	15.4	15.2
EV/EBITDA	18.2	19.5	14.0	13.3
EV/Sales	4.3	3.7	3.5	3.0
Dividend Yield (%)	0.4	0.4	0.4	0.4

Source: Company Data, PL Research

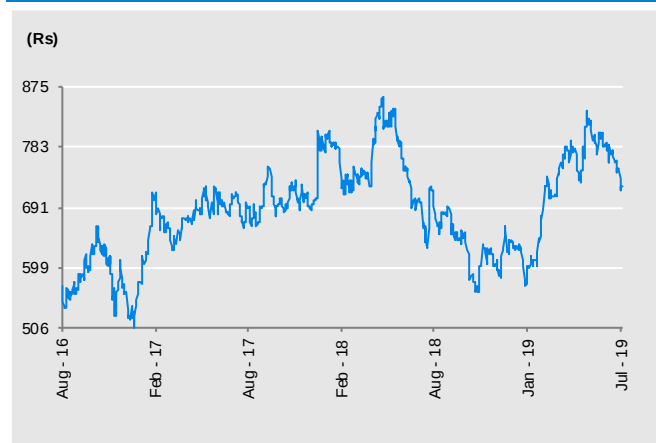
Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Volume (mn te)-Cement	9	11	12	13
Cement Realisations-Cement (Rs/te)	4,637	4,549	4,821	4,722
Cement EBITDA (Rs/te)	1,086	872	1,190	1,072
Raw material cost (Rs/te)	770	752	757	774
Power & Fuel cost (Rs/te)	783	950	832	829
Freight cost (Rs/te)	997	1,068	1,101	1,123

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Hold	820	790
2	23-May-19	Hold	740	762
3	5-Apr-19	Hold	654	759
4	29-Jan-19	Hold	600	574
5	7-Jan-19	Hold	660	629
6	30-Oct-18	Hold	640	602
7	5-Oct-18	Hold	735	638

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,800	1,567
2	Ambuja Cement	Hold	225	213
3	Coal India	Hold	265	251
4	Heidelberg Cement India	Accumulate	220	194
5	Hindalco Industries	Accumulate	220	181
6	Hindustan Zinc	Hold	225	220
7	Jindal Steel & Power	BUY	170	142
8	JK Lakshmi Cement	Accumulate	401	333
9	JSW Steel	Reduce	250	250
10	NMDC	Reduce	112	117
11	Shree Cement	Reduce	19,750	21,648
12	Steel Authority of India	Reduce	45	52
13	Tata Steel	BUY	600	495
14	The Ramco Cements	Hold	820	790
15	Ultratech Cement	BUY	5,175	4,645

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Kamlesh Bagmar- CA, Mr. Amit Khimesra- MBA Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

(US Clients)

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is or will be directly related to the specific recommendation or views expressed in this research report.

DISCLAIMER

Indian Clients

Prabhudas Lilladher Pvt. Ltd, Mumbai, India (hereinafter referred to as "PL") is engaged in the business of Stock Broking, Portfolio Manager, Depository Participant and distribution for third party financial products. PL is a subsidiary of Prabhudas Lilladher Advisory Services Pvt Ltd. which has its various subsidiaries engaged in business of commodity broking, investment banking, financial services (margin funding) and distribution of third party financial/other products, details in respect of which are available at www.plindia.com.

This document has been prepared by the Research Division of PL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

PL may from time to time solicit or perform investment banking or other services for any company mentioned in this document.

PL is in the process of applying for certificate of registration as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

PL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities.

PL or its research analysts or its associates or his relatives do not have any financial interest in the subject company.

PL or its research analysts or its associates or his relatives do not have actual/beneficial ownership of one per cent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report.

PL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report.

PL or its associates might have received compensation from the subject company in the past twelve months.

PL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months.

PL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months.

PL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months

PL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report.

PL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. PL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. PL or its Research Analysts do not have any material conflict of interest at the time of publication of this report.

It is confirmed that Mr. Kamlesh Bagmar- CA, Mr. Amit Khimesra- MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

The research analysts for this report has not served as an officer, director or employee of the subject company PL or its research analysts have not engaged in market making activity for the subject company

Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

PL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

US Clients

This research report is a product of Prabhudas Lilladher Pvt. Ltd., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Prabhudas Lilladher Pvt. Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Prabhudas Lilladher Pvt. Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").

Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

www.plindia.com | Bloomberg Research Page: PRLD <GO>