The Ramco Cements (TRCL IN)

Rating: HOLD | CMP: Rs776 | TP: Rs780

October 30, 2019

Q2FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	780		750	
Sales (Rs. m)	57,572	63,207	55,698	62,745
% Chng.	*3.4*	*0.7*		
EBITDA (Rs. m)	13,414	14,010	13,752	14,246
% Chng.	*(2.5)*	*(1.7)*		
EPS (Rs.)	32.2	32.2	33.5	33.0
% Chng.	*(4.0)*	*(2.6)*		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	50,602	57,572	63,207	70,764
EBITDA (Rs. m)	9,747	13,414	14,010	15,147
Margin (%)	*19.3*	*23.3*	*22.2*	*21.4*
PAT (Rs. m)	5,371	7,570	7,578	8,193
EPS (Rs.)	22.8	32.1	32.2	34.8
Gr. (%)	*(4.6)*	*40.9*	*0.1*	*8.1*
DPS (Rs.)	3.0	3.0	3.0	3.0
Yield (%)	*0.4*	*0.4*	*0.4*	*0.4*
RoE (%)	*12.6*	*15.8*	*13.9*	*13.3*
RoCE (%)	*12.0*	*15.4*	*14.0*	*14.0*
EV/Sales (x)	3.9	3.5	3.2	2.8
EV/EBITDA (x)	20.3	15.1	14.4	13.2
PE (x)	34.0	24.2	24.1	22.3
P/BV (x)	4.1	3.6	3.2	2.8

Key Data

Key Data	TRCE.BO | TRCL IN
52-W High / Low	Rs.845 / Rs.554
Sensex / Nifty	40,052 / 11,844
Market Cap	Rs.183bn/ $ 2,579m
Shares Outstanding	236m
3M Avg. Daily Value	Rs.471.62m

Shareholding Pattern (%)

Promoter's	42.66
Foreign	11.74
Domestic Institution	21.58
Public & Others	24.02
Promoter Pledge (Rs bn)	1.43

Stock Performance (%)

	1M	6M	12M
Absolute	3.2	0.2	28.9
Relative	(0.4)	(2.3)	9.1

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Higher volumes led the beat, maintain Hold

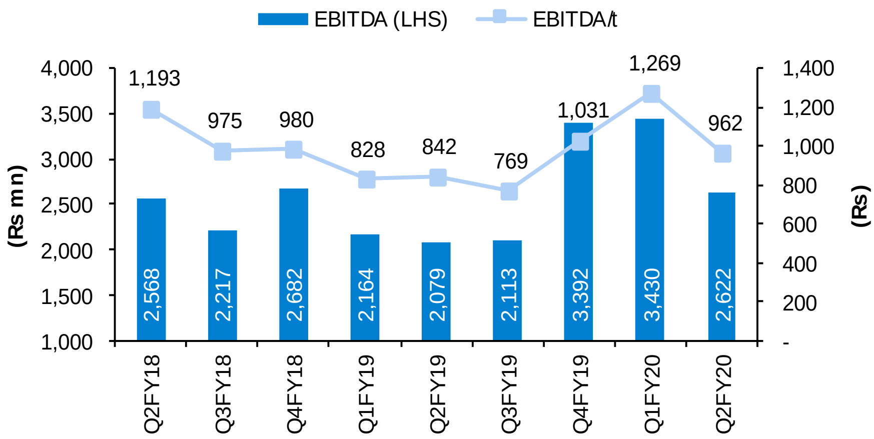
The Ramco Cements (TRCL) reported Q2FY20 EBIDTA 3%/13 above our/consensus estimates. The marginal beat came largely on account of better than expected volume growth (10.5% v/s PLe:+8.5%).

In line with our expectation, TRCL's margins fell sharply by 24% QoQ as the competition for volumes intensified in South region post July in wake of weak discipline, poor demand and high price levels. The upcoming new supplies of Chettinad cement, Penna and TRCL would keep region's prices under prolonged pressure. Sharp fall of ~20% in pet coke/thermal coal prices over last six months would help in costs lower by Rs100-120/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. In light of expensive valuations and weaker margins, we maintain Hold with TP of Rs780 (earlier Rs750), EV/EBITDA of 14.5x FY21E.

- **Earnings growth led by double digit volume growth and margin expansion:** Cement volumes grew 10% YoY at 2.7mnt (PLe:2.7mnt) on the back of strong volume push in East region, Tamil Nadu and Karnataka markets. Realisations fell 6%/Rs280/t QoQ (+2%/Rs85/t YoY) to Rs4,710/t (PLe:4,670/t). On the back of lower freight and RM cost partially offset by higher energy costs, total cost fell 1% YoY at Rs3745 (PLe:Rs3,715). Led by improved realisations and lower costs, EBITDA/t rose 14% YoY to Rs960 (PLe:Rs950). EBITDA rose 26% YoY to Rs2.6bn (PLe:Rs2.5bn). Impacted by lower other income (down 10% YoY due to lower revenue from windmill) and higher depreciation, growth in PBT was restricted to 26% YoY at Rs2.1bn (PLe:Rs2.1bn). PAT rose 45% YoY to Rs1.7bn (PLe:Rs1.5bn) due to lower tax rate (21% v/s PLe:31% and 27%/31% in Q2FY19/Q1FY20) on account of reduction in MAT rate.

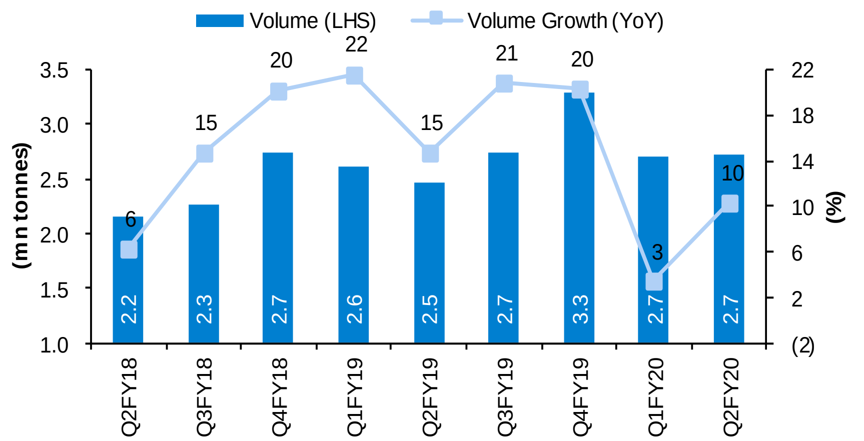
- **On track to reach 21mn tonnes by FY22E: 1)** Commenced commercial production from unit-2 of Kolaghat Grinding unit (GU) with 1mtpa capacity in September **2)** The remaining **c**apacity expansion of 0.9mnt/1.1mnt/1mnt grinding unit at Odisha/Vizag/Kurnool experienced delays due to extended monsoon **3)** Company guided Oct'2019/Mar'2020/Mar'2021 for commissioning of expansions at Odisha/Vizag/Kurnool units **4)** Spent total of Rs14bn on ongoing expansions (out of Rs35bn) till Q2FY20 **5)** Gross debt increased 22% QoQ/66% YoY to Rs24.4bn **6)** Post completion of these projects, TRCL's cement capacity would increase to 21mnt from existing 17mnt.

Exhibit 1: Q2FY20 margins fell 24% QoQ



Source: Company, PL

Exhibit 2: Volumes on strong trajectory



Source: Company, PL

Exhibit 3: Q2FY20 Result Overview

Y/e March (Rs mn)	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Net Sales	**12,824**	**11,413**	***12.4***	**13,486**	**26,309**	**23,272**	***13.0***
Raw Material	1,997	1,854	*7.7*	2,009	4,005	3,662	*9.4*
% of Net Sales	*15.6*	*16.2*		*14.9*	*15.2*	*15.7*	
Staff Costs	974	839	*16.1*	884	1,858	1,659	*12.0*
% of Net Sales	*7.6*	*7.4*		*6.6*	*7.1*	*7.1*	
Power & Fuel	2,713	2,360	*14.9*	2,661	5,373	4,923	*9.1*
% of Net Sales	*21.2*	*20.7*		*19.7*	*20.4*	*21.2*	
Freight and selling expenses	2,698	2,703	*(0.2)*	2,811	5,508	5,638	*(2.3)*
% of Net Sales	*21.0*	*23.7*		*20.8*	*20.9*	*24.2*	
Other Expenses	1,821	1,578	*15.4*	1,692	3,513	3,149	*11.6*
% of Net Sales	*14.2*	*13.8*		*12.5*	*13.4*	*13.5*	
Total Expenditure	10,202	9,334	*9.3*	10,056	20,258	19,030	*6.5*
EBITDA	**2,622**	**2,079**	***26.1***	**3,430**	**6,052**	**4,242**	***42.6***
Margin (%)	*20.4*	*18.2*		*25.4*	*23.0*	*18.2*	
Depreciation	765	728	*5.1*	758	1,523	1,463	*4.1*
Other income	435	482	*(9.7)*	435	870	870	-
EBIT	**2,292**	**1,833**	***25.1***	**3,107**	**5,399**	**3,650**	***47.9***
Interest	147	131	*12.3*	135	283	246	*15.0*
PBT	**2,144**	**1,701**	***26.0***	**2,972**	**5,116**	**3,404**	***50.3***
Extraordinary income/(expense)	(13)	(30)		(190)	(203)	(30)	
PBT (After EO)	2,132	1,671	*27.5*	2,782	4,913	3,374	*45.6*
Tax	450	527	*(14.5)*	871	1,312	980	*33.9*
% PBT	*21.1*	*31.5*		*31.3*	*26.7*	*29.0*	
Reported PAT	**1,682**	**1,145**	***46.9***	**1,911**	**3,601**	**2,395**	***50.4***
Adjusted PAT	**1,692**	**1,165**	***45.2***	**2,051**	**3,742**	**2,415**	***55.0***

Source: Company, PL

Exhibit 4: Key Operating Metrics

Y/e March (Rs mn)	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
Volume (mn te)-Cement	2.72	2.5	*10.3*	2.7	5.4	5.1	*6.8*
Cement Realisations (Rs/te)	4,708	4,622	*1.8*	4,989	4,848	4,578	*5.9*
Cement EBITDA/ te (Rs/te)	962	842	*14.3*	1,269	1,115	835	*33.6*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	**50,602**	**57,572**	**63,207**	**70,764**
YoY gr. (%)	*17.2*	*13.8*	*9.8*	*12.0*
Cost of Goods Sold	8,367	9,070	10,335	11,778
Gross Profit	42,235	48,502	52,872	58,987
Margin (%)	*83.5*	*84.2*	*83.6*	*83.4*
Employee Cost	3,295	3,690	3,986	4,304
Other Expenses	6,740	7,589	8,585	9,737
EBITDA	**9,747**	**13,414**	**14,010**	**15,147**
YoY gr. (%)	*(3.6)*	*37.6*	*4.4*	*8.1*
Margin (%)	*19.3*	*23.3*	*22.2*	*21.4*
Depreciation and Amortization	2,985	3,201	3,533	3,857
EBIT	**6,762**	**10,213**	**10,477**	**11,290**
Margin (%)	*13.4*	*17.7*	*16.6*	*16.0*
Net Interest	509	983	1,314	1,293
Other Income	1,145	1,140	1,218	1,227
Profit Before Tax	**7,156**	**10,167**	**10,381**	**11,223**
Margin (%)	*14.1*	*17.7*	*16.4*	*15.9*
Total Tax	2,097	2,745	2,803	3,030
Effective tax rate (%)	*29.3*	*27.0*	*27.0*	*27.0*
Profit after tax	**5,059**	**7,422**	**7,578**	**8,193**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**5,371**	**7,570**	**7,578**	**8,193**
YoY gr. (%)	*(4.6)*	*40.9*	*0.1*	*8.1*
Margin (%)	*10.6*	*13.1*	*12.0*	*11.6*
Extra Ord. Income / (Exp)	(312)	(148)	-	-
Reported PAT	**5,059**	**7,422**	**7,578**	**8,193**
YoY gr. (%)	*(9.0)*	*46.7*	*2.1*	*8.1*
Margin (%)	*10.0*	*12.9*	*12.0*	*11.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,059	7,422	7,578	8,193
Equity Shares O/s (m)	**236**	**236**	**236**	**236**
EPS (Rs)	**22.8**	**32.1**	**32.2**	**34.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	**87,466**	**99,166**	**106,366**	**122,166**
Tangibles	87,466	99,166	106,366	122,166
Intangibles	-	-	-	-
Acc: Dep / Amortization	**33,707**	**36,908**	**40,441**	**44,298**
Tangibles	33,707	36,908	40,441	44,298
Intangibles	-	-	-	-
Net fixed assets	**53,759**	**62,258**	**65,925**	**77,868**
Tangibles	53,759	62,258	65,925	77,868
Intangibles	-	-	-	-
Capital Work In Progress	10,606	12,556	15,656	8,756
Goodwill	-	-	-	-
Non-Current Investments	2,264	2,278	2,292	2,306
Net Deferred tax assets	(8,704)	(9,619)	(10,554)	(11,564)
Other Non-Current Assets	694	694	694	694
Current Assets				
Investments	-	-	-	-
Inventories	5,597	7,098	7,793	8,724
Trade receivables	4,900	5,836	6,754	7,561
Cash & Bank Balance	928	974	1,108	1,333
Other Current Assets	1,127	1,222	1,268	1,330
Total Assets	**81,082**	**94,320**	**103,152**	**110,512**
Equity				
Equity Share Capital	236	236	236	236
Other Equity	44,366	50,935	57,660	65,000
Total Networth	**44,601**	**51,170**	**57,896**	**65,236**
Non-Current Liabilities				
Long Term borrowings	16,187	20,387	20,387	17,887
Provisions	157	157	157	157
Other non current liabilities	131	131	131	131
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,572	3,155	3,463	3,877
Other current liabilities	8,730	9,701	10,565	11,660
Total Equity & Liabilities	**81,082**	**94,320**	**103,152**	**110,512**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	7,156	10,370	10,381	11,223
Add. Depreciation	2,985	3,201	3,533	3,857
Add. Interest	509	983	1,314	1,293
Less Financial Other Income	1,145	1,140	1,218	1,227
Add. Other	(232)	(424)	(237)	(252)
Op. profit before WC changes	10,418	14,130	14,991	16,121
Net Changes-WC	(929)	(1,190)	(759)	(582)
Direct tax	(1,584)	(1,830)	(1,869)	(2,020)
Net cash from Op. activities	**7,904**	**11,110**	**12,364**	**13,519**
Capital expenditures	(12,018)	(13,650)	(10,300)	(8,900)
Interest / Dividend Income	112	128	139	149
Others	35	93	98	103
Net Cash from Invt. activities	**(11,871)**	**(13,428)**	**(10,063)**	**(8,648)**
Issue of share cap. / premium	-	-	-	-
Debt changes	7,755	4,200	-	(2,500)
Dividend paid	(853)	(853)	(853)	(853)
Interest paid	(476)	(983)	(1,314)	(1,293)
Others	-	-	-	-
Net cash from Fin. activities	**6,426**	**2,365**	**(2,167)**	**(4,646)**
Net change in cash	**2,459**	**46**	**134**	**225**
Free Cash Flow	7,904	11,110	12,364	13,519

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Net Revenue	**12,065**	**15,265**	**13,486**	**12,824**
YoY gr. (%)	*15.2*	*22.0*	*13.7*	*12.4*
Raw Material Expenses	2,002	2,805	2,009	1,997
Gross Profit	10,063	12,460	11,477	10,827
Margin (%)	*83.4*	*81.6*	*85.1*	*84.4*
EBITDA	**2,113**	**3,392**	**3,430**	**2,622**
YoY gr. (%)	*(4.7)*	*26.5*	*58.5*	*26.1*
Margin (%)	*17.5*	*22.2*	*25.4*	*20.4*
Depreciation / Depletion	756	767	758	765
EBIT	**1,357**	**2,625**	**2,672**	**1,856**
Margin (%)	*11.2*	*17.2*	*19.8*	*14.5*
Net Interest	135	128	135	147
Other Income	105	170	435	435
Profit before Tax	**1,327**	**2,667**	**2,972**	**2,144**
Margin (%)	*11.0*	*17.5*	*22.0*	*16.7*
Total Tax	304	813	871	562
Effective tax rate (%)	*22.9*	*30.5*	*29.3*	*26.2*
Profit after Tax	**1,023**	**1,854**	**2,101**	**1,583**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,020**	**1,868**	**2,042**	**1,580**
YoY gr. (%)	*(8.5)*	*36.0*	*63.4*	*28.6*
Margin (%)	*8.5*	*12.2*	*15.1*	*12.3*
Extra Ord. Income / (Exp)	(9)	(215)	(131)	(10)
Reported PAT	**1,011**	**1,654**	**1,911**	**1,570**
YoY gr. (%)	*(17.7)*	*52.3*	*52.9*	*30.0*
Margin (%)	*8.4*	*10.8*	*14.2*	*12.2*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,011**	**1,654**	**1,911**	**1,570**
Avg. Shares O/s (m)	238	238	238	238
EPS (Rs)	**4.3**	**7.9**	**8.6**	**6.6**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	22.8	32.1	32.2	34.8
CEPS	35.5	45.7	47.2	51.1
BVPS	189.3	217.2	245.7	276.9
FCF	33.5	47.2	52.5	57.4
DPS	3.0	3.0	3.0	3.0
Return Ratio(%)				
RoCE	12.0	15.4	14.0	14.0
ROIC	8.7	11.4	10.4	10.4
RoE	12.6	15.8	13.9	13.3
Balance Sheet				
Net Debt : Equity (x)	0.3	0.4	0.3	0.3
Net Working Capital (Days)	57	62	64	64
Valuation(x)				
PER	34.0	24.2	24.1	22.3
P/B	4.1	3.6	3.2	2.8
P/CEPS	21.9	17.0	16.5	15.2
EV/EBITDA	20.3	15.1	14.4	13.2
EV/Sales	3.9	3.5	3.2	2.8
Dividend Yield (%)	0.4	0.4	0.4	0.4

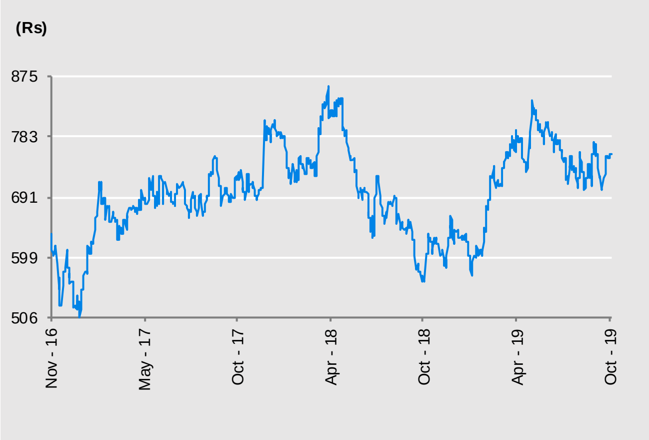
Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Volume (mn te)-Cement	11	12	13	15
Cement Realisations-Cement (Rs/te)	4,549	4,797	4,702	4,700
Cement EBITDA (Rs/te)	876	1,118	1,042	1,006
Raw material cost (Rs/te)	752	756	769	782
Power & Fuel cost (Rs/te)	950	883	833	834
Freight cost (Rs/te)	1,068	1,101	1,123	1,145

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Hold	750	719
2	8-Aug-19	Hold	750	738
3	4-Jul-19	Hold	820	790
4	23-May-19	Hold	740	762
5	5-Apr-19	Hold	654	759
6	29-Jan-19	Hold	600	574
7	7-Jan-19	Hold	660	629

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	Accumulate	1,650	1,498
2	Ambuja Cement	Hold	207	208
3	Coal India	Accumulate	230	187
4	Heidelberg Cement India	Accumulate	220	185
5	Hindalco Industries	Accumulate	207	183
6	Hindustan Zinc	Hold	235	220
7	Jindal Steel & Power	Accumulate	125	96
8	JK Lakshmi Cement	Accumulate	380	301
9	JSW Steel	Reduce	185	223
10	NMDC	Reduce	90	97
11	Shree Cement	Reduce	18,500	18,260
12	Steel Authority of India	Reduce	32	31
13	Tata Steel	Reduce	355	340
14	The Ramco Cements	Hold	750	719
15	Ultratech Cement	BUY	5,125	4,147

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)

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