

The Ramco Cements

BSE SENSEX
26,265

S&P CNX
7,954

Bloomberg TRCL IN

Equity Shares (m) 238.0

M.Cap. (INR b) / (USD b) 89.0/1.4

52-Week Range (INR) 380/270

1, 6, 12 Rel. Per (%) 12/30/13

Avg Val INRm/Vol '000 66/197

Free float (%) 57.7

Financials & Valuation (INR b)

Y/E MAR	2015	2016E	2017E
Sales	35.9	35.2	38.9
EBITDA	6.6	9.2	10.3
NP	2.4	3.8	4.7
Adj EPS (INR)	10.2	16.1	19.8
EPS Gr. (%)	106.8	58.6	22.6
BV/Sh. (INR)	111.1	125.0	141.3
RoE (%)	9.5	13.7	14.9
RoCE (%)	10.2	13.6	16.3
Payout (%)	17.1	14.4	17.6

Valuations

P/E (x)	36.7	23.2	18.9
P/BV (x)	3.4	3.0	2.6
EV/EBITDA(x)	17.3	12.1	10.1
EV/Ton(USD)	121	109	103

Estimate change

7% ↑

TP change

↔

Rating change

↔

CMP: INR374

TP: INR426 (+14%)

Buy

Healthy profitability amidst dismal volume; cost structure getting better

- Dismal volume trend continues, along with lower dispatches to east:** Ramco Cement's (TRCL) 2QFY16 revenue was INR8.7b (est. of INR9.11b), -5.2%YoY/-5% QoQ. Volumes witnessed double-digit decline for the fifth consecutive quarter and were 1.71mt (-11.9% YoY, -6% QoQ) v/s est. of -9%YoY; de-growth worsened owing to lower dispatches in the eastern region due to non-remunerative pricing. Realizations declined -3% QoQ v/s est. of -1%.
- Significant improvement in profitability:** EBITDA stood at INR2.73b, +46% YoY (v/s est. of INR2.1b), translating into EBITDA margin of 31.3%—a 16-quarter high (+7.1pp QoQ, +10pp YoY). Blended EBITDA/ton stood at INR1,599 (+INR369 QoQ, +INR637 YoY) v/s est. of INR1,157. We estimate cement EBITDA/ton at INR1,434. There was a reversal of DMF provision of INR80m (INR46/ton) in 2Q, implying adjusted EBITDA/ton was at INR1,364. Tax reversal further boosted PAT to INR1.4b (+55% YoY).
- Cost structure improved with greater focus on margin:** Lower fuel prices (imported and pet coke; pet coke mix near ~40%), moderation in freight cost (from peak season and lower diesel price), lower RM cost (effective of beneficiation measures in past and DMF reversal) and lower dispatches to eastern market (reduction in inter-unit freight to INR129/ton v/s INR214/ton in 1QFY16) improved cost structure meaningfully.
- Valuation and view:** TRCL is among the lowest-cost cement producers in the south and has been regaining cost efficiencies due to various measures adopted in the recent past. The company offers strong play on southern recovery due to (a) superior brand and higher trade segment mix aiding premium pricing, (b) edge over profitability and (c) visibility of de-leveraging from FY16 onward (net debt down INR1.8b in 1HFY16). We upgrade FY16 EPS by 7% to factor for better cost trends. The stock trades at 10.1x FY17E EV/EBITDA and EV/ton of USD103. We maintain **Buy** with a TP of INR426, an upside of 14% (valuing cement business at EV/ton of USD115).

Quarterly Performance

Y/E March	FY15				FY16				(INR Million)		Variance (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY15	FY16E		
Sales Dispatches (m ton)	2.13	1.94	1.72	1.88	1.81	1.71	1.61	1.84	7.67	6.98	1.8	-3.2
YoY Change (%)	-3.9	-11.4	-11.6	-16.3	-14.8	-11.9	-6.0	-2.2	-10.8	-9.0	-9.0	
Realization (INR/ton)	4,401	4,739	4,744	5,311	5,178	5,028	5,028	5,253	4,786	5,126	5,153	-2
YoY Change (%)	2.2	16.2	6.5	21.8	17.7	6.1	6.0	-1.1	11.4	7.1	8.7	
QoQ Change (%)	0.9	7.7	0.1	12.0	-2.5	-2.9	0.0	4.5			-0.5	
Net Sales	9,243	9,221	7,861	9,614	9,225	8,740	7,900	9,362	35,939	35,228	9,111	-4
YoY Change (%)	-3.7	1.9	-6.7	4.0	-0.2	-5.2	0.5	-2.6	-1.1	-2.0	-1.2	
EBITDA	1,365	1,870	1,001	2,386	2,230	2,736	1,849	2,352	6,622	9,166	2,047	34
Margins (%)	14.8	20.3	12.7	24.8	24.2	31.3	23.4	25.1	18.4	26.0	22.5	
Depreciation	627	624	626	622	668	671	700	705	2,499	2,744	675	-1
Interest	500	480	485	473	488	453	430	426	1,938	1,796	480	-6
Other Income	367	318	317	378	302	199	190	174	1,379	865	225	-12
PBT	605	1,084	206	1,669	1,377	1,811	909	1,394	3,564	5,490	1,117	62
Tax	243	187	-24	735	402	423	264	558	1,141	1,647	357	18
Rate (%)	40.1	17.2	-11.4	44.0	29.2	23.4	29.0	40.1	32.0	30.0	32.0	
Adj PAT	363	897	230	934	975	1,387	645	836	2,423	3,843	759	83
YoY Change (%)	-47.3	391.0	-10.3	474.8	168.9	54.6	181.0	-189.5	111.3	58.6	-15.4	
Margins (%)	3.9	9.7	2.9	9.7	10.6	15.9	8.2	8.9	6.7	10.9	8.3	

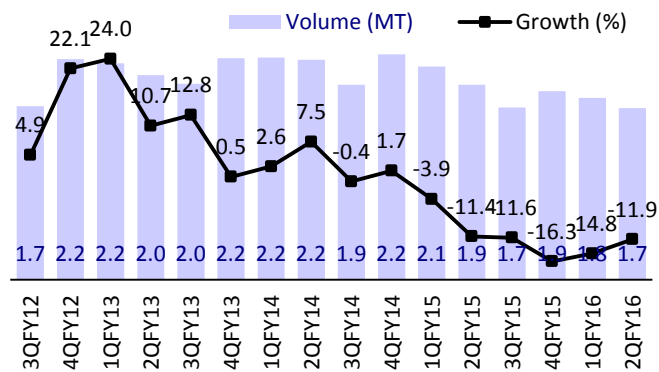
E: MOSL Estimates

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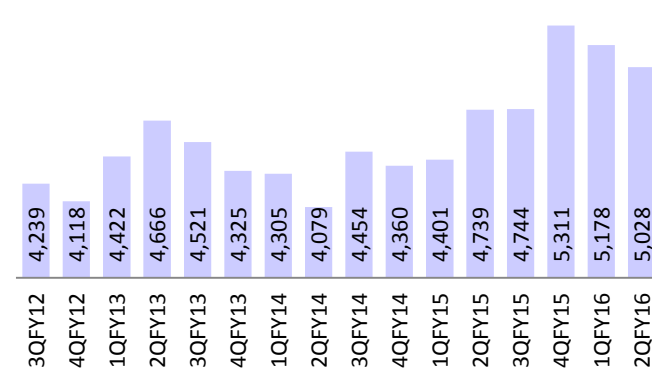
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Exhibit 1: Cement volumes de-grew 12% YoY



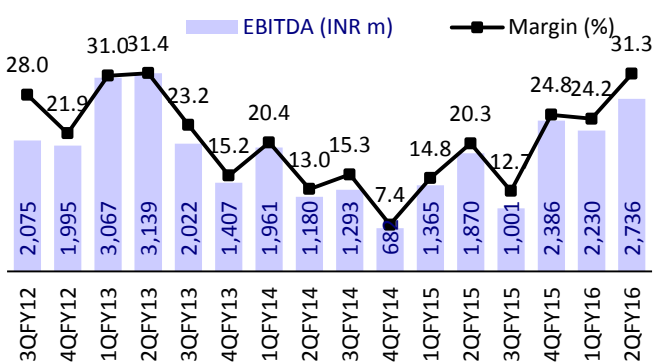
Source: Company, MOSL

Exhibit 2: Realizations down 3% QoQ (INR m)



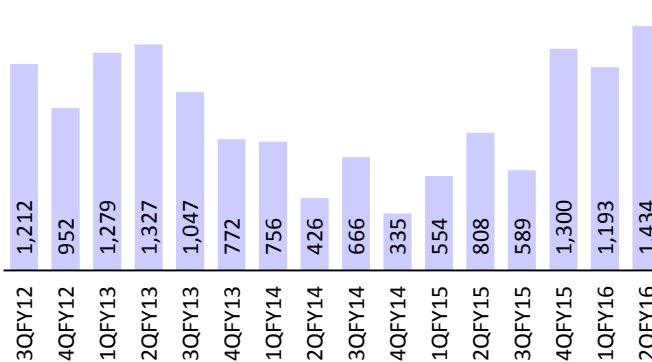
Source: Company, MOSL

Exhibit 3: Strong OPM led by better cost and DMF reversal



Source: Company, MOSL

Exhibit 4: Trend in EBITDA/ton



Source: Company, MOSL

Exhibit 5: Per ton analysis (incl Windmills)

INR/Ton	2QFY16	2QFY15	YoY (%)	1QFY16	QoQ (%)
Net realization	5,108	4,746	8	5,088	0
RM Cost	654	841	-22	1,009	-35
Employee Expenses	398	275	45	342	16
Power, Oil & Fuel	794	953	-17	804	-1
Freight and Handling Outward	909	1,043	-13	1,010	-10
Other Expenses	754	670	13	693	9
Total Expenses	3,509	3,783	-7	3,859	-9
EBITDA	1,599	962	66	1,230	30
Cement EBITDA (ex windmills)	1,434	808	78	1,193	20

Source: Company, MOSL

Exhibit 6: Revised forecast

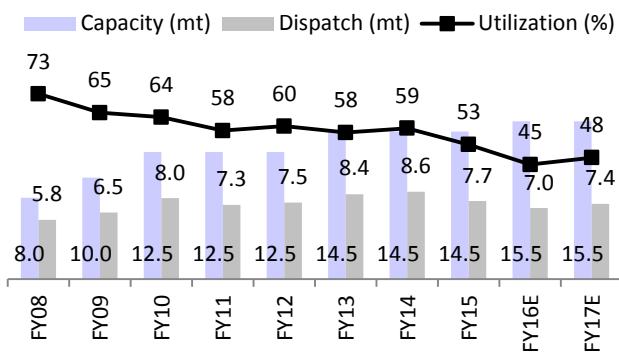
(INR M)	FY16E			FY17E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	35,228	37,601	-6.3	38,870	42,471	-8.5
EBITDA	9,166	8,778	4.4	10,329	10,656	-3.1
Net Profit	3,843	3,605	6.6	4,714	4,895	-3.7
EPS (INR)	16.1	15.1	6.6	19.8	20.6	-3.7

Source: Company, MOSL

Valuation and views

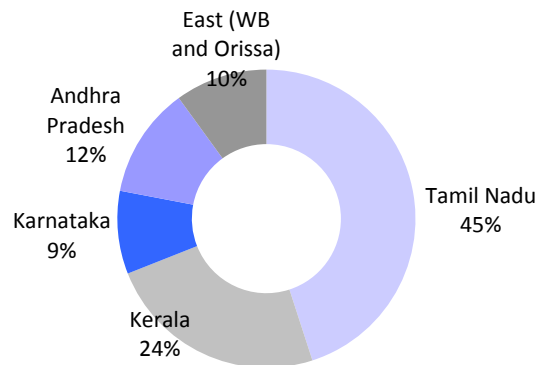
- TRCL is among the lowest cost cement producers in the South due to focused initiatives on operating efficiencies, higher usage of captive power (insulates against tariff rise or unavailability), strategic location of plants, etc.
- Strong brand and higher trade segment mix aids premium pricing in core markets. These give significant competitive advantage and strong profitability levers in times of recovery.
- However delay in recovery of cement demand in south, coupled with ongoing weakness in TN and deterioration in captive limestone quality (leading higher import and RM cost) had been an overhang in recent times for TRCL. With resolution of these issues and likely revival of demand scenario in south from 2HFY17 would offer strong headroom for operating revival.
- We maintain upgrade FY16 EPS by 7% to factor for better cost trends. The stock trades at 10.1x FY17E EV/EBITDA, and EV/ton of USD103. We maintain **Buy** with a TP of INR426, an upside of 14% (valuing cement business at EV/ton of USD115).

Exhibit 7: Robust utilization headroom



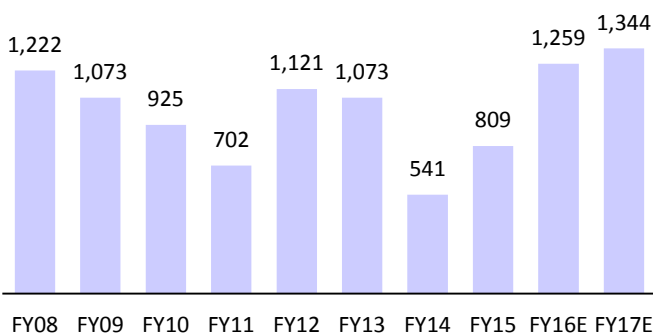
Source: Company, MOSL

Exhibit 8: Market mix



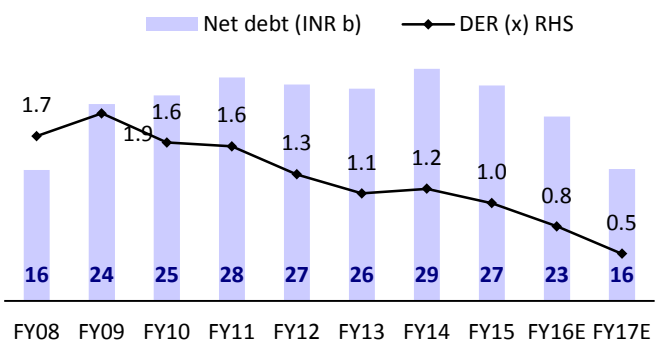
Source: Company, MOSL

Exhibit 9: Expect steady recovery in profitability (EBITDA/ton) as southern demand picks up...



Source: Company, MOSL

Exhibit 10: ...and will trigger de-leveraging



Source: Company, MOSL

Financials and valuations

Income Statement						(INR Million)	
Y/E March	2011	2012	2013	2014	2015	2016E	2017E
Net Sales	26,049	32,030	37,884	36,321	35,939	35,228	38,870
Change (%)	-7.0	23.0	18.3	-4.1	-1.1	-2.0	10.3
EBITDA	6,181	9,163	9,631	5,117	6,622	9,166	10,329
Margin (%)	23.7	28.6	25.4	14.1	18.4	26.0	26.6
Depreciation	2,208	2,539	2,806	3,063	2,499	2,744	3,097
EBIT	3,973	6,624	6,825	2,054	4,123	6,422	7,232
Int. and Finance Charges	1,399	1,585	1,785	1,881	1,938	1,796	1,666
Other Income - Rec.	399	536	842	1,141	1,379	865	1,366
PBT bef. EO Exp.	2,973	5,575	5,882	1,314	3,564	5,490	6,932
EO Expense/(Income)	16	1	5	-230	0	0	0
PBT after EO Exp.	2,957	5,574	5,877	1,543	3,564	5,490	6,932
Current Tax	824	1,121	1,174	-44	88	1,647	2,218
Deferred Tax	39	602	672	210	1,053	0	0
Tax Rate (%)	29.2	30.9	31.4	10.8	32.0	30.0	32.0
Reported PAT	2,094	3,851	4,032	1,377	2,424	3,843	4,714
PAT Adj for EO items	2,105	3,852	4,035	1,172	2,424	3,843	4,714
Change (%)	-40.5	83.0	4.8	-71.0	106.8	58.6	22.6
Margin (%)	8.1	12.0	10.7	3.2	6.7	10.9	12.1

Balance Sheet						(INR Million)	
Y/E March	2011	2012	2013	2014	2015	2016E	2017E
Equity Share Capital	238	238	238	238	238	238	238
Total Reserves	17,107	20,266	23,470	24,583	26,214	29,504	33,388
Net Worth	17,345	20,504	23,708	24,821	26,452	29,742	33,626
Deferred Liabilities	5,890	6,492	7,164	7,374	8,271	8,271	8,271
Total Loans	27,912	27,104	26,671	29,000	27,136	24,136	18,136
Capital Employed	51,147	54,100	57,542	61,195	61,859	62,149	60,033
Gross Block	51,105	56,704	63,568	69,375	73,925	76,425	78,425
Less: Accum. Deprn.	13,175	15,553	18,359	21,422	23,920	26,664	29,761
Net Fixed Assets	37,930	41,152	45,209	47,953	50,004	49,760	48,663
Capital WIP	5,457	5,276	2,300	2,000	1,000	1,000	1,000
Total Investments	2,673	2,665	2,658	2,834	3,558	3,558	3,558
Curr. Assets, Loans&Adv.	10,988	11,491	14,547	15,899	15,763	16,867	16,496
Inventory	3,923	4,911	5,948	6,855	5,206	5,515	5,477
Account Receivables	1,751	2,079	3,028	3,040	3,802	4,412	3,651
Cash and Bank Balance	400	475	536	447	618	1,425	1,892
Loans and Advances	4,913	4,026	5,035	5,557	6,136	5,515	5,477
Curr. Liability & Prov.	5,900	6,483	7,172	7,492	8,844	9,037	9,685
Account Payables	4,564	4,892	5,300	6,443	7,221	7,390	7,911
Provisions	1,335	1,591	1,873	1,049	1,623	1,647	1,775
Net Current Assets	5,088	5,008	7,375	8,407	6,919	7,830	6,811
Appl. of Funds	51,147	54,100	57,542	61,195	61,859	62,149	60,033

E: MOSL Estimates; * Adjusted for treasury stocks

Financials and valuations

Ratios

Y/E March	2011	2012	2013	2014	2015	2016E	2017E
Basic (INR)							
Consol EPS	9	16.2	17.0	4.9	10.2	16.1	19.8
Cash EPS	18	26.9	28.7	17.8	20.7	27.7	32.8
BV/Share	73	86.2	99.6	104.3	111.1	125.0	141.3
DPS	1.3	2.5	3.0	1.0	1.5	2.0	3.0
Payout (%)	16.5	18.0	20.6	20.2	17.1	14.4	17.6
Valuation (x)							
P/E				76.0	36.7	23.2	18.9
Cash P/E				21.0	18.1	13.5	11.4
P/BV				3.6	3.4	3.0	2.6
EV/Sales				3.2	3.2	3.1	2.7
EV/EBITDA				22.6	17.3	12.1	10.1
EV/Ton (US\$)				122	121	109	103
Dividend Yield (%)				0.3	0.4	0.5	0.8
Return Ratios (%)							
RoE	12.8	20.4	18.3	4.8	9.5	13.7	14.9
RoCE	10.1	15.4	15.6	6.1	10.2	13.6	16.3
Working Capital Ratios							
Asset Turnover (x)	0.5	0.6	0.7	0.6	0.6	0.6	0.6
Inventory (Days)	55.0	56.0	57.3	68.9	52.9	57.1	51.4
Debtor (Days)	22	21	26	27	34	40	30
Leverage Ratio (x)							
Current Ratio	1.9	1.8	2.0	2.1	1.8	1.9	1.7
Debt/Equity	1.6	1.3	1.1	1.2	1.0	0.8	0.5

Cash Flow Statement

(INR Million)

Y/E March	2011	2012	2013	2014	2015	2016E	2017E
Oper. Profit/(Loss) before Tax	3,973	6,624	6,825	2,054	4,123	6,422	7,232
Interest/Dividends Recd.	399	536	842	1,141	1,379	865	1,366
Depreciation	2,208	2,539	2,806	3,063	2,499	2,744	3,097
Direct Taxes Paid	-824	-1,121	-1,174	44	-244	-1,647	-2,218
(Inc)/Dec in WC	850	155	-2,306	-1,121	1,282	273	1,486
CF from Operations	6,606	8,732	6,993	5,180	9,039	8,657	10,963
EO expense	-21	-162	-5	230	0	0	0
CF from Operating incl EO	6,585	8,570	6,989	5,410	9,039	8,657	10,963
(inc)/dec in FA	-5,273	-5,419	-3,888	-5,507	-3,550	-2,500	-2,000
Free Cash Flow	1,312	3,152	3,101	-97	5,489	6,157	8,963
(Pur)/Sale of Investments	-1,785	8	7	-176	-724	0	0
CF from investments	-7,058	-5,411	-3,881	-5,684	-4,274	-2,500	-2,000
Issue of Shares	16	0	2	15	-378	0	0
(Inc)/Dec in Debt	2,247	-808	-434	2,330	-1,864	-3,000	-6,000
Interest Paid	-1,399	-1,585	-1,785	-1,881	-1,938	-1,796	-1,666
Dividend Paid	-346	-692	-830	-279	-415	-553	-830
CF from Fin. Activity	517	-3,084	-3,047	184	-4,594	-5,349	-8,496
Inc/Dec of Cash	44	75	61	-89	171	807	467
Add: Beginning Balance	356	400	475	536	447	618	1,425
Closing Balance	400	475	536	447	618	1,426	1,892

E: MOSL Estimates

Corporate profile: The Ramco Cements

Company description

The Ramco Cements (TRCL) is one of the top three cement producers in South India with total nameplate capacity of 12.5mtpa (0.95mtpa in West Bengal and the balance in the South). It also has operational wind farm capacity of 159MW and 157MW of CPP capacity. Despite the unfavorable southern market, MC offers an attractive play due to superior operating efficiency, premium profitability and strong FCF visibility.

Exhibit 11: Sensex rebased

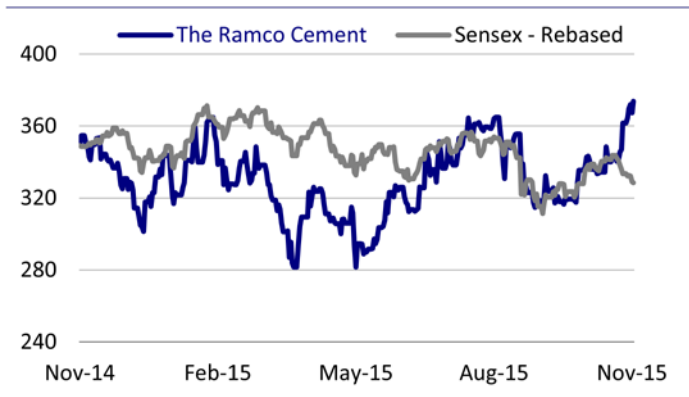


Exhibit 12: Shareholding pattern (%)

	Sep-15	Jun-15	Sep-14
Promoter	42.3	42.3	42.3
DII	24.5	23.0	18.3
FII	13.7	15.5	18.9
Others	19.5	19.2	20.5

Note: FII Includes depository receipts

Exhibit 13: Top holders

Holder Name	% Holding
The Governor Government of Tamil Nadu	3.4
Aberdeen Global Asian Smaller Companies Fund	2.9
Amrit Petroleums Pvt Ltd	2.5
Aberdeen Global Emerging Markets Smaller	2.0
Franklin Templeton Investment Fund	1.7

Exhibit 14: Top management

Name	Designation
P R Ramasubrahmaneya Rajha	Chairman & MD
P R Venketrama Raja	Director

Exhibit 15: Directors

Name	Name
P R Ramasubrahmaneya Rajha	R S Agarwal*
P R Venketrama Raja	M M Venkatachalam*
M B N Rao*	Chitra Venkatraman*

*Independent

Exhibit 16: Auditors

Name	Type
CNGSN & Associates	Statutory
M S Jagannathan & N Krishnaswami	Statutory
Geeyes & Co	Cost Auditor

Exhibit 17: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	16.1	16.7	-3.7
FY17	19.8	21.5	-7.7

NOTES

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