



9 November 2016

2QFY17 Results Update | Sector: Cement

The Ramco Cements

BSE SENSEX	S&P CNX
27,253	8,432
Bloomberg	TRCL IN
Equity Shares (m)	238.0
M.Cap.(INR b)/(USD b)	144.4 / 2.2
52-Week Range (INR)	685 / 355
1, 6, 12 Rel. Per (%)	-8/28/51
Avg Val, (INR m)	112
Free float (%)	57.7

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Sales	35.9	39.0	45.2
EBITDA	10.5	11.7	14.1
NP	5.6	6.5	7.6
Adj EPS (INR)	23.4	27.5	31.7
EPS Gr. (%)	130.3	17.1	15.5
BV/Sh. (INR)	129.9	153.9	180.9
RoE (%)	19.5	19.4	19.0
RoCE (%)	13.2	13.7	14.5
Payout (%)	14.9	12.7	14.7
P/E (x)	25.9	22.1	19.1
EV/EBITDA (x)	15.7	13.6	10.7
EV/Ton (USD)	160	149	142

Estimate change



TP change



Rating change



CMP: INR607

TP: INR713 (+17%)

Buy

Strong volume growth coupled with realization improvement

- Robust volume growth:** TRCL's volumes grew 19% YoY to 2.03m tons in 2QFY17, driven by growth in the southern market (+ ~10-11% YoY) led by AP and Telangana. Volumes improvement was led by higher sales to the eastern market (+60% YoY). Cement realization increased 5% QoQ (above expectation) led by price hikes in AP and Telangana at end-August. Revenue grew 16% YoY to INR10.1b (est. of INR9.26b). PAT increased 46% YoY to INR2.07b.
- Margin improvement led by cost savings:** Cement EBITDA/ton was at all-time high of INR1,526 (+6% YoY, +9% QoQ) due to cost savings. Unitary costs declined 6% YoY to INR3,260/ton, aided by (a) **low-cost** fuel inventory and (b) positive operating leverage. Hence, operating margin expanded 3.6pp/2.1pp QoQ/YoY to 34.5%. Power EBITDA stood at INR389m in 2QFY17.
- Further deleveraging:** TRCL reduced debt by INR3.5b to INR18.5b in 1HFY17, driven by strong free cash flow generation. With no immediate expansion plans, it is poised for further deleveraging over FY17-FY18.
- Management commentary:** 1) Higher volumes led by strong growth in AP/Telangana and higher sales to the east market by ramping up Kolaghat and Vizag units. 2) Realization increase QoQ driven by price hikes in AP and Telangana at end-August. 3) Impact of higher fuel prices to be seen partly in 3Q/4QFY17. 4) Estimated capex for FY17/FY18 would be INR2b annually toward maintenance.
- Best play on southern recovery:** With ~12% market share in the south, strong brand/dealer network, superior pricing and industry-leading RoE (18-20% in FY18), peak parameters are already in place. TRCL is likely to generate free cash of ~INR15b over FY16-FY18, implying yield of 6%. We estimate 16%/26% EBITDA/PBT CAGR over FY16-18. The stock trades at EV of 10.7x FY18E EBITDA, and USD142/ton (FY18E). Maintain **Buy**; our target price of INR713 (valuing at 12.5x FY18E EBITDA) implies 17% upside.

Quarterly Performance

Y/E March	FY16				FY17				FY16	FY17E	FY17 2QF	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QF	4QF				
Sales Dispatches (m ton)	1.81	1.71	1.63	2.09	2.08	2.03	1.87	2.24	7.235	8.22	1.97	3
YoY Change (%)	-14.8	-11.9	-5.4	10.9	14.5	18.9	15.0	7.6	-5.6	13.7	15.0	
Realization (INR/ton)	5,178	4,876	5,051	4,990	4,541	4,769	4,769	4,632	5,024	4,674	4,551	5
YoY Change (%)	17.7	2.9	6.5	-6.0	-12.3	-2.2	-5.6	-7.2	5.0	-7.0	-9.5	
QoQ Change (%)	-2.5	-5.8	3.6	-1.2	-9.0	5.0	0.0	-2.9			2.8	
Net Sales	9,041	8,766	8,119	9,788	9,667	10,124	8,954	10,283	35,872	39,027	9,256	9
YoY Change (%)	-2.2	-4.9	3.3	1.8	6.9	15.5	10.3	5.1	-0.2	8.8	5.9	
EBITDA	2,104	2,840	2,446	2,956	2,988	3,493	2,470	2,739	10,504	11,689	2,740	27
Margins (%)	23.3	32.4	30.1	30.2	30.9	34.5	27.6	26.6	29.3	30.0	29.6	
Depreciation	667	671	679	652	663	667	680	680	2,670	2,690	680	
Interest	493	456	418	435	291	282	290	305	1,802	1,168	290	
Other Income	452	130	109	308	73	93	110	387	999	662	310	
PBT	1,396	1,842	1,458	2,176	2,106	2,637	1,610	2,140	7,031	8,493	2,080	27
Tax	403	421	280	342	547	567	280	559	1,448	1,953	502	
Rate (%)	28.9	22.8	19.2	15.7	26.0	21.5	17.4	26.1	20.6	23.0	24.2	
Adj PAT	992	1,421	1,177	1,834	1,559	2,070	1,329	1,581	5,583	6,540	1,577	31
YoY Change (%)	173.7	58.4	412.8	96.3	57.1	45.6	12.9	-13.8	130.4	17.1	13.7	
Margins (%)	11.0	16.2	14.5	18.7	16.1	20.4	14.8	15.4	15.6	16.8	17.0	

E: MOSL Estimates

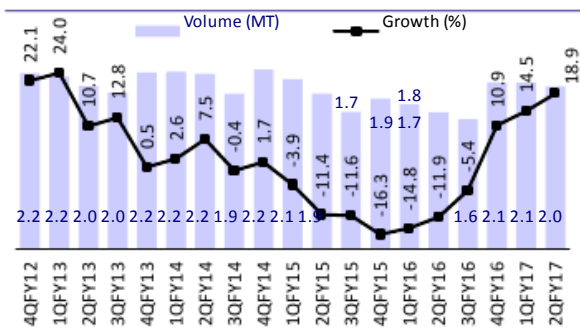
Abhishek Ghosh (Abhishek.Ghosh@motilaloswal.com); +91 22 3982 5436

Varun Gadia (Varun.Gadia@motilaloswal.com); +91 22 3982 5446

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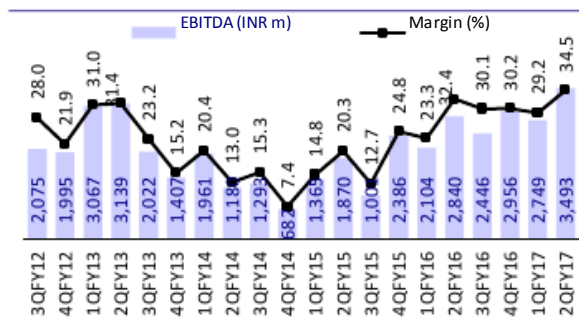
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Exhibit 1: Cement volumes grew 19% YoY



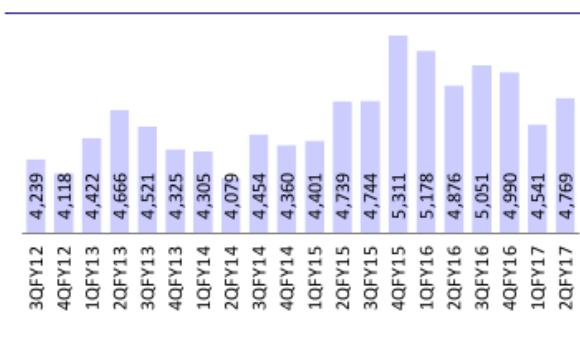
Source: Company, MOSL

Exhibit 2: Margins improved to 34.5%



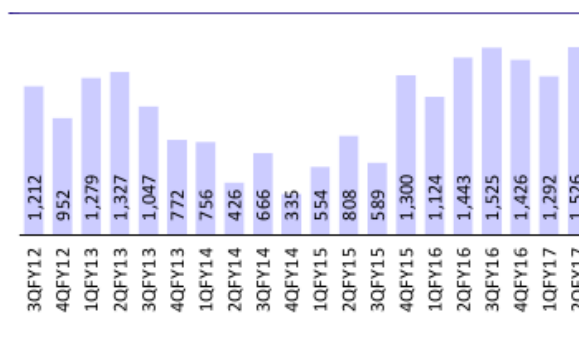
Source: Company, MOSL

Exhibit 3: Realizations up by 5% QoQ



Source: Company, MOSL

Exhibit 4: Trend in cement EBITDA/ton



Source: Company, MOSL

Exhibit 5: Per ton analysis (incl Windmills)

INR/Ton	2QFY17	2QFY16	YoY (%)	1QFY17	QoQ (%)
Net realization	4,977	5,123	-3	4,541	10
RM Cost	777	654	19	807	-4
Employee Expenses	344	399	-14	340	1
Power, Oil & Fuel	591	794	-25	623	-5
Freight and Handling Outward	879	909	-3	853	3
Other Expenses	669	707	-5	594	13
Total Expenses	3,260	3,463	-6	3,217	1
EBITDA	1,717	1,660	3	1,324	30

Source: Company, MOSL

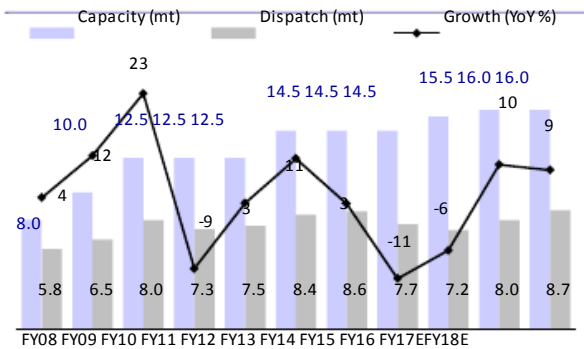
Valuation and views

- TRCL is among the lowest cost cement producers in south along with the most premium brands. Strong brand and higher trade segment mix aids superior pricing in core markets.
- Its industry leading profitability is function of (a) premium pricing, (b) operating efficiencies viz. higher usage of captive power (insulates against tariff rise or unavailability), strategic location of plants, etc. and (c) continuous efforts toward process optimization.
- De-leveraging has already started with INR4.5-5b reduction in net debt over FY16 (~INR22b, 0.7x). With no immediate capex plan (barring 0.5mt of clinker de-bottlenecking), we expect TRCL to generate INR8b of annual FCF in FY17 aiding further reduction ahead.

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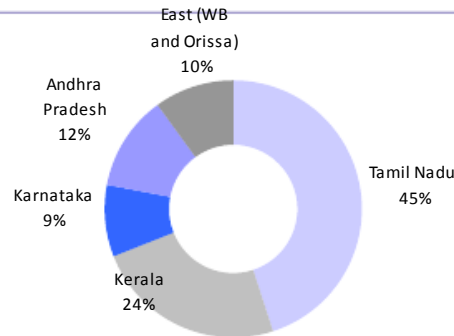
- With ~12% market share in south, strong brand/dealer network, superior pricing and industry-leading RoE (18-20% in FY18), peak parameters are already in place. TRCL is likely to generate free cash of ~INR15b over FY16-FY18 implying an yield of 6%. We estimate 16%/26% EBITDA/PBT CAGR over FY16-18. The stock trades at an EV of 10.7x FY18E EBITDA, and USD142/ton (FY18E). Maintain **Buy**; our target price of INR713 (valuing at an 12.5x FY18E EBITDA) implies 17% upside).

Exhibit 6: Utilization improving QoQ



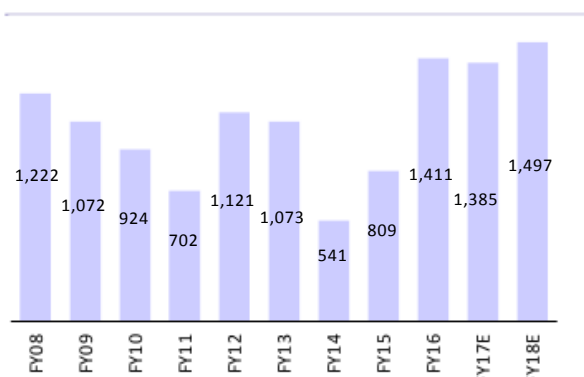
Source: Company, MOST

Exhibit 7: Market mix



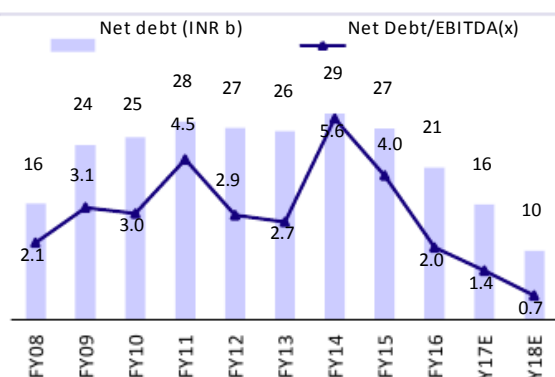
Source: Company, MOST

Exhibit 8: Strong EBITDA/ton in south improving profitability



Source: Company, MOST

Exhibit 9: Committed to deleveraging



Source: Company, MOST

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Financials and Valuations

Income Statement						(INR Million)	
Y/E March	2012	2013	2014	2015	2016	2017E	2018E
Net Sales	32,030	37,884	36,321	35,939	35,872	39,027	45,217
Change (%)	23.0	18.3	-4.1	-1.1	-0.2	8.8	15.9
EBITDA	9,163	9,631	5,117	6,622	10,504	11,689	14,086
Margin (%)	28.6	25.4	14.1	18.4	29.3	30.0	31.2
Depreciation	2,539	2,806	3,063	2,499	2,670	2,690	2,843
EBIT	6,624	6,825	2,054	4,123	7,834	8,999	11,243
Int. and Finance Charges	1,585	1,785	1,881	1,938	1,802	1,168	1,028
Other Income - Rec.	536	842	1,141	1,379	999	662	893
PBT bef. EO Exp.	5,575	5,882	1,314	3,564	7,031	8,493	11,108
EO Expense/(Income)	1	5	-230	0	0	0	0
PBT after EO Exp.	5,574	5,877	1,543	3,564	7,031	8,493	11,108
Current Tax	1,121	1,174	-44	88	1,067	1,953	3,555
Deferred Tax	602	672	210	1,053	381	0	0
Tax Rate (%)	30.9	31.4	10.8	32.0	20.6	23.0	32.0
Reported PAT	3,851	4,032	1,377	2,424	5,583	6,540	7,553
PAT Adj for EO items	3,852	4,035	1,172	2,424	5,583	6,540	7,553
Change (%)	83.0	4.8	-71.0	106.8	130.4	17.1	15.5
Margin (%)	12.0	10.7	3.2	6.7	15.6	16.8	16.7
Balance Sheet						(INR Million)	
Y/E March	2012	2013	2014	2015	2016	2017E	2018E
Equity Share Capital	238	238	238	238	238	238	238
Total Reserves	20,266	23,470	24,583	26,214	30,688	36,398	42,845
Net Worth	20,504	23,708	24,821	26,452	30,926	36,636	43,083
Deferred Liabilities	6,492	7,164	7,374	8,271	8,521	8,521	8,521
Total Loans	27,104	26,671	29,000	27,119	22,056	19,056	15,056
Capital Employed	54,100	57,542	61,195	61,841	61,503	64,213	66,659
Gross Block	56,704	64,388	67,880	72,350	77,475	78,475	79,475
Less: Accum. Deprn.	15,553	18,359	21,422	23,920	26,591	29,281	32,124
Net Fixed Assets	41,152	46,029	46,458	48,429	50,884	49,194	47,351
Capital WIP	5,276	1,480	3,495	2,575	1,000	2,000	3,000
Total Investments	2,665	2,658	2,834	3,558	3,654	3,654	3,654
Curr. Assets, Loans&Adv.	11,491	14,547	15,899	15,763	16,081	18,603	22,674
Inventory	4,911	5,948	6,855	5,206	5,490	5,562	6,158
Account Receivables	2,079	3,028	3,040	3,802	4,685	4,450	4,583
Cash and Bank Balance	475	536	447	618	908	3,029	5,489
Loans and Advances	4,026	5,035	5,557	6,136	4,998	5,562	6,444
Curr. Liability & Prov.	6,483	7,172	7,492	8,861	8,749	9,238	10,019
Account Payables	4,892	5,300	6,443	7,238	8,311	8,652	9,308
Provisions	1,591	1,873	1,049	1,623	438	586	711
Net Current Assets	5,008	7,375	8,407	6,901	7,332	9,365	12,655
Appl. of Funds	54,100	57,542	61,195	61,841	61,503	64,213	66,659

E: MOSL Estimates; * Adjusted for treasury stocks

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Financials and Valuations

Ratios							
Y/E March	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)							
Consol EPS	16.2	17.0	4.9	10.2	23.4	27.5	31.7
Cash EPS	26.9	28.7	17.8	20.7	34.7	38.8	43.7
BV/Share	86.2	99.6	104.3	111.1	129.9	153.9	180.9
DPS	2.5	3.0	1.0	1.5	3.0	3.0	4.0
Payout (%)	18.0	20.6	20.2	17.1	14.9	12.7	14.7
Valuation (x)							
P/E				59.6	25.9	22.1	19.1
Cash P/E				29.3	17.5	15.7	13.9
P/BV				5.5	4.7	3.9	3.4
EV/Sales				4.7	4.6	4.1	3.3
EV/EBITDA				25.4	15.7	13.6	10.7
EV/Ton (USD)				175	160	149	142
Dividend Yield (%)				0.2	0.5	0.5	0.7
Return Ratios (%)							
RoIC	10.4	9.5	3.4	5.1	11.2	12.4	13.9
RoE	20.4	18.3	4.8	9.5	19.5	19.4	19.0
RoCE	10.7	10.7	5.5	7.0	13.2	13.7	14.5
Working Capital Ratios							
Asset Turnover (x)	0.6	0.7	0.6	0.6	0.6	0.6	0.7
Inventory (Days)	56.0	57.3	68.9	52.9	55.9	52.0	49.7
Debtor (Days)	21	25	26	34	41	36	32
Leverage Ratio (x)							
Debt/Equity	1.3	1.1	1.2	1.0	0.7	0.5	0.3
Cash Flow Statement						(INR Million)	
Y/E March	2012	2013	2014	2015	2016	2017E	2018E
Oper. Profit/(Loss) before Tax	6,624	6,825	2,054	4,123	7,834	8,999	11,243
Interest/Dividends Recd.	536	842	1,141	1,379	999	662	893
Depreciation	2,539	2,806	3,063	2,499	2,670	2,690	2,843
Direct Taxes Paid	-1,121	-1,174	44	-244	-1,198	-1,953	-3,555
(Inc)/Dec in WC	155	-2,306	-1,121	1,299	1,603	-1,279	-830
CF from Operations	8,732	6,993	5,180	9,057	11,908	9,119	10,595
EO expense	-162	-5	230	0	0	0	0
CF from Operating incl EO	8,570	6,989	5,410	9,057	11,908	9,119	10,595
(inc)/dec in FA	-5,419	-3,888	-5,507	-3,550	-3,550	-2,000	-2,000
Free Cash Flow	3,152	3,101	-97	5,507	8,358	7,119	8,595
(Pur)/Sale of Investments	8	7	-176	-724	-95	0	0
CF from investments	-5,411	-3,881	-5,684	-4,274	-3,645	-2,000	-2,000
Issue of Shares	0	2	15	-378	-278	0	0
(Inc)/Dec in Debt	-808	-434	2,330	-1,881	-5,063	-3,000	-4,000
Interest Paid	-1,585	-1,785	-1,881	-1,938	-1,802	-1,168	-1,028
Dividend Paid	-692	-830	-279	-415	-830	-830	-1,107
CF from Fin. Activity	-3,084	-3,047	184	-4,612	-7,974	-4,998	-6,134
Inc/Dec of Cash	75	61	-89	171	289	2,121	2,460
Add: Beginning Balance	400	475	536	447	618	908	3,029
Closing Balance	475	536	447	618	908	3,029	5,489
E: MOSL Estimates							

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Financials and Valuations

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 1: Sensex rebased

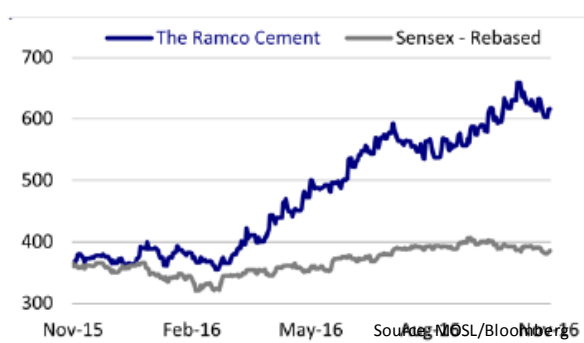


Exhibit 2: Shareholding pattern (%)

	Sep-16	Jun-16	Sep-15
Promoter	42.3	42.3	42.3
DII	36.9	21.9	24.5
FII	0.0	15.9	13.7
Others	20.8	19.9	19.5

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
The Governor Government Of Tamilnadu	3.4
Amrit Petroleums Pvt Limited	2.1
Kotak Select Focus Fund	1.5
The New India Assurance Company Limited	1.4
Aberdeen Global-Asian Smaller Companies Fund	1.4

Source: Capitaline

Exhibit 4: Top management

Name	Designation
P R Ramasubrahmaneya Rajha	Chairman & MD
K Selvanayagam	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
P R Ramasubrahmaneya Rajha	RS Agarwal*
P R Venketrama Raja	MM Venkatachalam*
MB N Rao*	Chitra Venkatraman*

*Independent

Exhibit 6: Auditors

Name	Type
CNGSN & Associates LLP	Statutory
Geeyes & Co	Cost Auditor
MS Jagannathan & N Krishnaswami	Statutory
S Krishnamurthy & Co	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	27.5	27.5	0.1
FY18	31.7	32.4	-2.1

Source: Bloomberg

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NOTES

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

Vanun Kumar

Vanun.kumar@motilalosal.com

Contact : (+65) 68189232

Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931



Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025
Phone: +91 22 3982 5500 E-mail: reports@motilalosal.com

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