



7 February 2017

3QFY17 Results Update | Sector: Cement

The Ramco Cements

BSE SENSEX	S&P CNX
28,335	8,768
Bloomberg	TRCL IN
Equity Shares (m)	238
M.Cap.(INRb)/(USD\$b)	162 / 2.4
52-Week Range (INR)	728 / 355
1, 6, 12 Rel. Per (%)	12/22/63
Avg Val, INRm	135
Free float (%)	57.7

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	35.9	39.7	43.9
EBITDA	10.5	12.2	13.9
PAT	5.6	6.9	7.6
EPS (INR)	23.4	29.0	31.9
Gr. (%)	130.3	23.6	10.2
BV/Sh (INR)	129.9	155.4	182.7
RoE (%)	19.5	20.3	18.9
RoCE (%)	13.2	14.2	14.4
P/E (x)	29.0	23.5	21.3
EV/EBITDA (x)	17.3	14.4	12.1

Estimate change



TP change



Rating change

**CMP: INR681****TP: INR815(+20%)****Buy**

Strong volume growth and interest cost savings drive profits

- Robust volume growth:** TRCL's volumes grew 22% YoY (but declined 2% QoQ) to 1.99mt in 3QFY17 (v/s our estimate of 1.93mt), driven by higher sales to eastern markets. Volumes grew 90-100% YoY in the eastern markets and ~11% YoY in the southern markets. We expect growth to moderate due to high base and already high utilization for its eastern units.
- Subdued realizations:** Cement realizations declined by 2% QoQ (and 6% YoY) to INR4,682/tonne (v/s our estimate of INR4,769/tonne) due to weak pricing in eastern markets on poor demand. Net sales grew 15% YoY (but declined 7% QoQ) to INR9.4b (v/s our estimate of INR9.3b).
- EBITDA/ton at elevated levels:** Cement EBITDA/tonne declined 12-13% YoY/QoQ to INR1,340 (v/s our estimate of INR1,376) due to lower realization (higher exposure to eastern market) and higher other expenses. Margin was 28.7% (-5.8pp QoQ, -1.4pp YoY) v/s our estimate of 28.4% due to lower pricing.
- Management commentary:** (1) 9MFY17 capex at INR1.86b; FY17 target capex at INR2.2b, (2) debt repayment of INR5.3b for the period April 2016 to February 2017; current debt on books is ~INR17b, of which INR12b is interest-bearing debt, (3) interest income of INR190m is recognized for claims pertaining to delay in payment from TN state electricity board.
- Buyback:** TRCL announced buyback amount not exceeding INR1.8b at a price not exceeding INR720 per share.

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 in excess of INR24b over FY16-FY19, implying yield of 5%. We estimate 17%/24% EBITDA/PBT CAGR over FY17-19. The stock trades at an EV of 9.6x FY19E EBITDA and USD150/ton (FY19E). Maintain **Buy**; our target price of INR815 (11.5x FY19E EBITDA) implies 20% upside.

Quarterly Performance

Y/E March	FY16				FY17				FY16	FY17E	FY18E	(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				FY17 3QE	Var. (%)
Sales Dispatches (m ton)	1.81	1.71	1.63	2.09	2.08	2.03	1.99	2.26	7.235	8.36	8.94	1.93	3
YoY Change (%)	-14.8	-11.9	-5.4	10.9	14.5	18.9	22.3	8.3	-5.6	15.5	7.0	19.0	
Realization (INR/ton)	5,178	4,876	4,967	5,056	4,541	4,769	4,682	4,704	5,024	4,674	4,844	4,769	-2
YoY Change (%)	17.7	2.9	4.7	-4.8	-12.3	-2.2	-5.7	-7.0	5.0	-7.0	3.6	-5.6	
QoQ Change (%)	-2.5	-5.8	1.9	1.8	-10.2	5.0	-1.8	0.5				0.0	
Net Sales	9,041	8,766	8,128	9,788	9,667	10,124	9,374	10,488	35,872	39,653	43,919	9,264	1
YoY Change (%)	-2.2	-4.9	3.4	1.8	6.9	15.5	15.3	7.1	-0.2	10.5	10.8	14.1	
EBITDA	2,104	2,840	2,485	2,926	2,988	3,493	2,690	3,037	10,504	12,208	13,919	2,627	2
Margins (%)	23.3	32.4	30.6	29.9	30.9	34.5	28.7	29.0	29.3	30.8	31.7	28.4	
Depreciation	667	671	679	653	663	667	661	660	2,670	2,651	2,685	650	
Interest	493	456	420	433	291	282	261	248	1,802	1,082	925	270	
Other Income	452	130	76	341	73	93	273	169	999	608	877	100	
PBT	1,396	1,842	1,463	2,181	2,106	2,637	2,061	2,299	7,031	9,082	11,186	1,807	14
Tax	403	421	279	342	547	567	542	524	1,448	2,180	3,580	398	
Rate (%)	28.9	22.8	19.1	15.7	26.0	21.5	26.3	22.8	20.6	24.0	32.0	22.0	
Adj PAT	992	1,421	1,183	1,838	1,559	2,070	1,498	1,775	5,583	6,903	7,607	1,409	6
YoY Change (%)	173.7	58.4	415.4	96.8	57.1	45.6	26.6	-3.5	130.4	23.6	10.2	19.7	
Margins (%)	11.0	16.2	14.6	18.8	16.1	20.4	16.0	16.9	15.6	17.4	17.3	15.2	

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MOTILAL OSWAL

Exhibit 1: Cement volumes grew 22% YoY

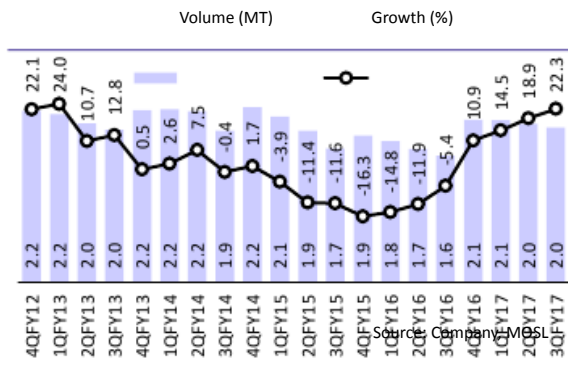


Exhibit 2: Margins declined to 28.7%

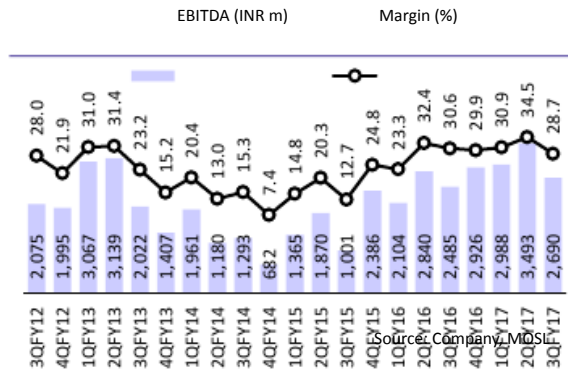


Exhibit 3: Realizations declined by INR 87/t QoQ (INR/t)

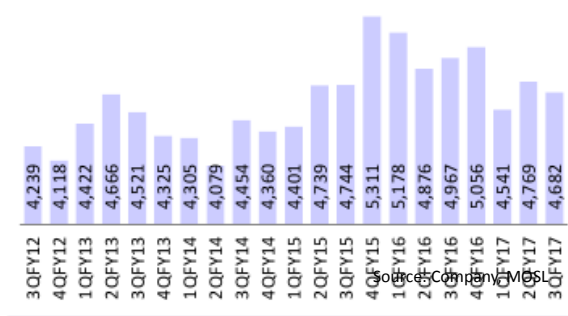


Exhibit 4: Trend in cement EBITDA/ton (INR/t)

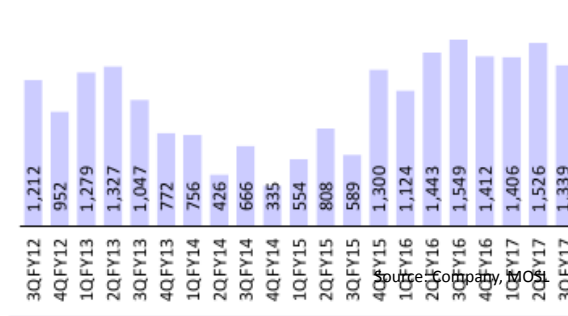


Exhibit 5: Per ton analysis (incl Windmills)

INR/Ton	3QFY17	3QFY16	YoY (%)	2QFY17	QoQ (%)
Net realization	4,715	4,999	-6	4,977	-5
RM Cost	830	859	-3	777	7
Employee Expenses	351	400	-12	344	2
Power, Oil & Fuel	645	709	-9	591	9
Freight and Handling Outward	891	907	-2	879	1
Other Expenses	645	595	9	669	-3
Total Expenses	3,362	3,470	-3	3,260	3
EBITDA	1,353	1,528	-11	1,717	-21

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 partly being done with INR5.3b reduction in net debt in Apr-16 to February-17. With no immediate capex plan (barring 0.5mt of clinker de-bottlenecking), we expect TRCL to generate ~INR7-8b of annual FCF in FY18/FY19 aiding further reduction ahead.
- 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 in excess off ~INR24b over FY16-FY19E, implying yield of 5%. We estimate 17%/24% EBITDA/PBT CAGR over FY17-19. The stock trades at EV of 12x FY19E EBITDA, and USD150/ton (FY19E). Maintain Buy; our target price of INR815 (valuing at 11.5x FY19E EBITDA) implies 20% upside.

Exhibit 6: Utilization improving YoY

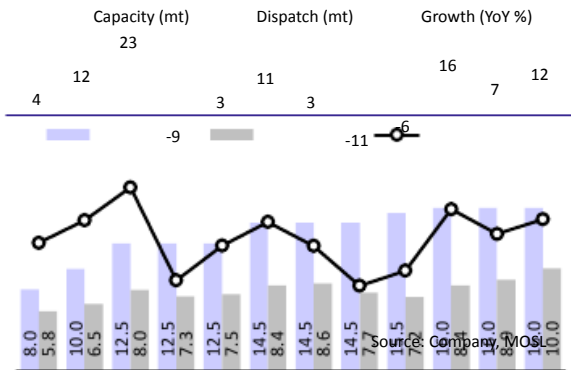


Exhibit 7: Market mix

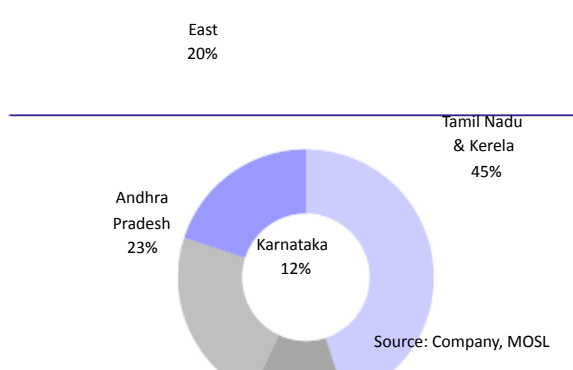


Exhibit 8: Cement EBITDA/ton trend (INR/t)

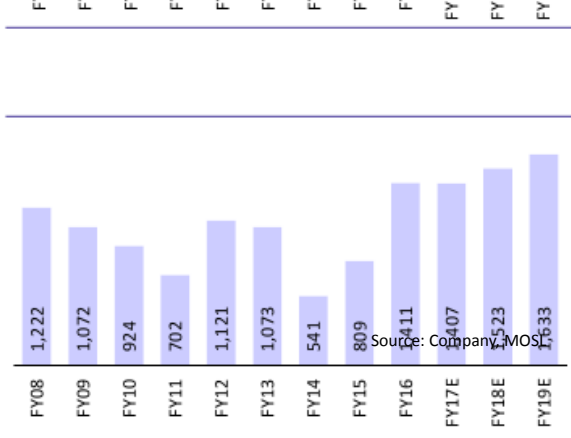
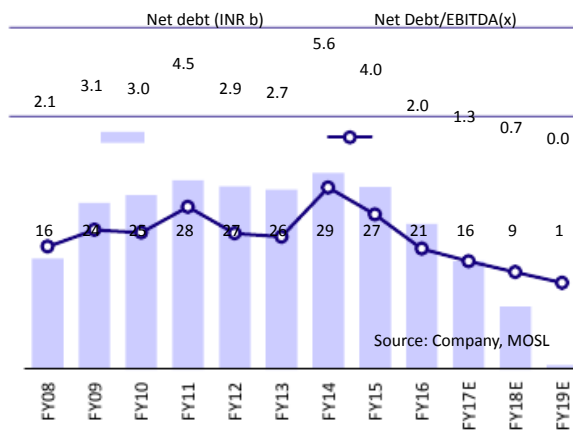


Exhibit 9: Committed to deleveraging



Financials and Valuations

Income Statement						(INR Million)		
Y/E March	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Net Sales	32,030	37,884	36,321	35,939	35,872	39,653	43,919	50,831
Change (%)	23.0	18.3	-4.1	-1.1	-0.2	10.5	10.8	15.7
EBITDA	9,163	9,631	5,117	6,622	10,504	12,208	13,919	16,663
Margin (%)	28.6	25.4	14.1	18.4	29.3	30.8	31.7	32.8
Depreciation	2,539	2,806	3,063	2,499	2,670	2,651	2,685	2,897
EBIT	6,624	6,825	2,054	4,123	7,834	9,557	11,234	13,766
Int. and Finance Charges	1,585	1,785	1,881	1,938	1,802	1,082	925	682
Other Income - Rec.	536	842	1,141	1,379	999	608	877	960
PBT bef. EO Exp.	5,575	5,882	1,314	3,564	7,031	9,082	11,186	14,044
EO Expense/(Income)	1	5	-230	0	0	0	0	0
PBT after EO Exp.	5,574	5,877	1,543	3,564	7,031	9,082	11,186	14,044
Current Tax	1,121	1,174	-44	88	1,067	2,180	3,580	4,494
Deferred Tax	602	672	210	1,053	381	0	0	0
Tax Rate (%)	30.9	31.4	10.8	32.0	20.6	24.0	32.0	32.0
Reported PAT	3,851	4,032	1,377	2,424	5,583	6,903	7,607	9,550
PAT Adj for EO items	3,852	4,035	1,172	2,424	5,583	6,903	7,607	9,550
Change (%)	83.0	4.8	-71.0	106.8	130.4	23.6	10.2	25.5
Margin (%)	12.0	10.7	3.2	6.7	15.6	17.4	17.3	18.8
Balance Sheet						(INR Million)		
Y/E March	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Equity Share Capital	238	238	238	238	238	238	238	238
Total Reserves	20,266	23,470	24,583	26,214	30,688	36,761	43,261	51,704
Net Worth	20,504	23,708	24,821	26,452	30,926	36,999	43,499	51,942
Deferred Liabilities	6,492	7,164	7,374	8,271	8,521	8,521	8,521	8,521
Total Loans	27,104	26,671	29,000	27,119	22,056	19,056	15,056	11,056
Capital Employed	54,100	57,542	61,195	61,841	61,503	64,576	67,076	71,519
Gross Block	56,704	64,388	67,880	72,350	77,475	78,475	79,475	81,475
Less: Accum. Deprn.	15,553	18,359	21,422	23,920	26,591	29,242	31,927	34,824
Net Fixed Assets	41,152	46,029	46,458	48,429	50,884	49,233	47,548	46,651
Capital WIP	5,276	1,480	3,495	2,575	1,000	2,000	3,000	3,000
Total Investments	2,665	2,658	2,834	3,558	3,654	3,654	3,654	3,654
Curr. Assets, Loans&Adv.	11,491	14,547	15,899	15,763	16,081	19,134	22,631	29,094
Inventory	4,911	5,948	6,855	5,206	5,490	5,651	5,981	6,600
Account Receivables	2,079	3,028	3,040	3,802	4,685	4,521	4,451	5,152
Cash and Bank Balance	475	536	447	618	908	3,310	5,940	10,420
Loans and Advances	4,026	5,035	5,557	6,136	4,998	5,651	6,259	6,922
Curr. Liability & Prov.	6,483	7,172	7,492	8,861	8,749	9,445	9,757	10,880
Account Payables	4,892	5,300	6,443	7,238	8,311	8,791	9,041	9,981
Provisions	1,591	1,873	1,049	1,623	438	654	716	899
Net Current Assets	5,008	7,375	8,407	6,901	7,332	9,689	12,874	18,214
Appl. of Funds	54,100	57,542	61,195	61,841	61,503	64,576	67,076	71,519

Ratios								
Y/E March	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Basic (INR)								
EPS	16.2	17.0	4.9	10.2	23.4	29.0	31.9	40.1
Cash EPS	26.9	28.7	17.8	20.7	34.7	40.1	43.2	52.3
BV/Share	86.2	99.6	104.3	111.1	129.9	155.4	182.7	218.2
DPS	2.5	3.0	1.0	1.5	3.0	3.0	4.0	4.0
Payout (%)	18.0	20.6	20.2	17.1	14.9	12.0	14.5	11.6
Valuation (x)								
P/E	42.1	40.2	138.3	66.9	29.0	23.5	21.3	17.0
Cash P/E	25.4	23.7	38.3	32.9	19.6	17.0	15.8	13.0
P/BV	7.9	6.8	6.5	6.1	5.2	4.4	3.7	3.1
EV/Sales	5.7	4.9	5.2	5.2	5.1	4.4	3.8	3.1
EV/EBITDA	20.0	19.4	36.6	28.1	17.3	14.4	12.1	9.6
EV/Ton (US\$)	219	192	193	192	176	164	157	149
Dividend Yield (%)	0.4	0.4	0.1	0.2	0.4	0.4	0.6	0.6
Return Ratios (%)								
RoIC	10.4	9.5	3.4	5.1	11.2	13.0	13.9	17.2
RoE	20.4	18.3	4.8	9.5	19.5	20.3	18.9	20.0
RoCE	10.7	10.7	5.5	7.0	13.2	14.2	14.4	16.5
Working Capital Ratios								
Asset Turnover (x)	0.6	0.7	0.6	0.6	0.6	0.6	0.7	0.7
Inventory (Days)	56.0	57.3	68.9	52.9	55.9	52.0	49.7	47.4
Debtor (Days)	21	25	26	34	41	36	32	32
Leverage Ratio (x)								
Current Ratio	1.8	2.0	2.1	1.8	1.8	2.0	2.3	2.7
Debt/Equity	1.3	1.1	1.2	1.0	0.7	0.5	0.3	0.2
Cash Flow Statement						(INR Million)		
Y/E March	2012	2013	2014	2015	2016E	2017E	2018E	2019E
Oper. Profit/(Loss) before Tax	6,624	6,825	2,054	4,123	7,834	9,557	11,234	13,766
Interest/Dividends Recd.	536	842	1,141	1,379	999	608	877	960
Depreciation	2,539	2,806	3,063	2,499	2,670	2,651	2,685	2,897
Direct Taxes Paid	-1,121	-1,174	44	-244	-1,198	-2,180	-3,580	-4,494
(Inc)/Dec in WC	155	-2,306	-1,121	1,299	1,603	-1,322	-556	-860
CF from Operations	8,732	6,993	5,180	9,057	11,908	9,314	10,661	12,269
EO expense	-162	-5	230	0	0	0	0	0
CF from Operating incl EO	8,570	6,989	5,410	9,057	11,908	9,314	10,661	12,269
(inc)/dec in FA	-5,419	-3,888	-5,507	-3,550	-3,550	-2,000	-2,000	-2,000
Free Cash Flow	3,152	3,101	-97	5,507	8,358	7,314	8,661	10,269
(Pur)/Sale of Investments	8	7	-176	-724	-95	0	0	0
CF from investments	-5,411	-3,881	-5,684	-4,274	-3,645	-2,000	-2,000	-2,000
Issue of Shares	0	2	15	-378	-278	0	0	0
(Inc)/Dec in Debt	-808	-434	2,330	-1,881	-5,063	-3,000	-4,000	-4,000
Interest Paid	-1,585	-1,785	-1,881	-1,938	-1,802	-1,082	-925	-682
Dividend Paid	-692	-830	-279	-415	-830	-830	-1,107	-1,107
CF from Fin. Activity	-3,084	-3,047	184	-4,612	-7,974	-4,912	-6,032	-5,789
Inc/Dec of Cash	75	61	-89	171	289	2,402	2,630	4,480
Add: Beginning Balance	400	475	536	447	618	908	3,310	5,940
Closing Balance	475	536	447	618	908	3,310	5,940	10,420
7 February 2017								

The Ramco Cements

Corporate profile

Company description

Exhibit 1: Sensex rebased

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.

Exhibit 2: Shareholding pattern (%)

	Dec-16	Sep-16	Dec-15
Promoter	42.3	42.3	42.3
DII	28.6	36.9	26.8
FII	14.4	0.0	11.6
Others	14.6	20.8	19.3

Note: FII Includes depository receipts Source: Capitaline

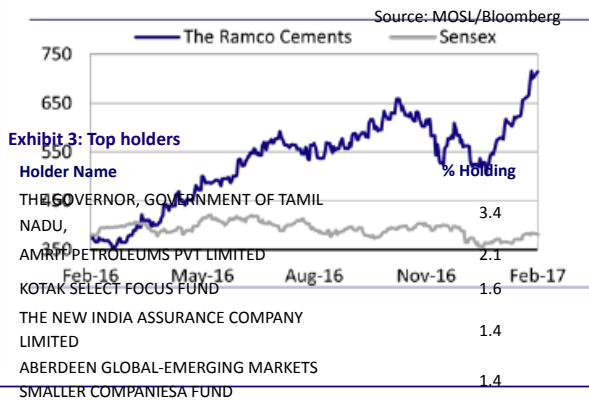


Exhibit 4: Top management

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

Exhibit 5: Directors

Name	Name
M B N Rao	M M Venkatachalam
P R Venketrana Raja	R S Agarwal
Chitra Venkatraman	

Exhibit 6: Auditors

Name	Type
CNGSN & Associates LLP	Statutory
Geeyes & Co	Cost Auditor
M S 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	29.0	28.3	2.5
FY18	31.9	31.6	0.8
FY19	40.1	36.9	8.6

Source: Bloomberg

7 February 2017

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The Ramco Cements

NOTES

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7 February 2017

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