

The Ramco Cements Ltd

INR 680

Financial deleveraging continues!

ACCUMULATE

The Ramco Cements Limited (TRCL), flagship company of the Ramco group, operates in Southern region of India with a capacity of 12.5 MTPA of integrated plants and 4 MTPA of satellite grinding units having a market share of ~9%. We expect the southern market to grow at 7.2% CAGR over FY16-FY20E and hence believe that TRCL is regionally well placed to benefit from the growing infrastructure opportunities and expanding off-take in the Government projects.

Robust Volume growth continues: In Q3FY17, TRCL reported a stellar volume growth of 22.3% Y-O-Y on account of off-take in infrastructure spending by the Government in South and low base lifting its volumes to 1.98 MT as against 1.63 MT last year.

Going forward, we believe the volume growth to sustain due to Government's focus on low-cost "Housing for All" scheme, higher infrastructure spend in AP & Telangana, off-take in Government projects of irrigation coupled with development of smart cities and affordable housing sector demand in East. However, sluggish cement demand in Kerala remains one of the key risks for TRCL.

We estimate TRCL's volumes to reach 9.41 MT by FY19 from 7.23 MT in FY16 translating into 9.16% CAGR.

Rise in input costs hurt margins: TRCL's EBITDA stood at INR 2944.4 mn which was up by 15.8% Y-O-Y and down 17.4% Q-O-Q and EBITDA margin stood at 26.5% as against 30.42% last quarter. A significant hike in pet-coke prices and higher COGS resulted in EBITDA margins taking a hit q-o-q.

Despite the significant increase in pet-coke prices, we believe the firming up of cement prices on the back of improved demand and continued focus of management on improvement in operating efficiencies will help to maintain the EBITDA margins sustained.

We estimate TRCL's EBITDA/ton to increase to INR 1652 by FY19E as against INR 1507 in FY16.

Financial deleveraging continues: TRCL has reduced its debt by ~INR 5300 mn and currently the consolidated total debt stands at ~INR 17000 mn. As the management doesn't plan to incur capex currently, the FCFE will be used in retiring its debt and we estimate its consolidated total debt to go down from INR 17000 mn to INR 8000 mn by FY19 leading to surge in ROCE from 15.29% in FY16 to 19% in FY19.

Outlook and valuations: TRCL continues to remain the most efficient cement player with an EBITDA/ton of ~INR 1480 currently. With its total debt of INR 17000 mn, TRCL's EV/ton stands at \$151 and EV/EBITDA at 10.6x on FY19 basis. We believe TRCL's robust volume growth, operating efficiencies, margin sustainability and financial deleveraging will help TRCL to maintain its premium valuations.

We value The Ramco Cements Ltd at an EV/EBITDA of 12X FY-19E arriving at a price target of INR 772/share translating into a 14% upside from the current price of INR 680/share.

Target Price (TP): INR 772

Potential Upside : 14%

Market Data

Shares outs (Mn)	238.07
Equity Cap (Mn)	238.1
Mkt Cap (INR Mn)	162094.6
52 Wk H/L (INR)	728/354
Avg Vol(3M avg K)	291.52
Face Value (INR)	1
Bloomberg Code	TRCL IN

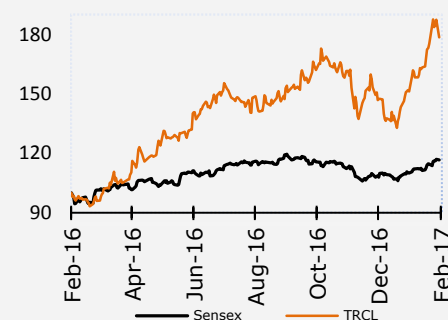
As on 7th Feb, 2017

Market Info:

SENSEX	28335
NIFTY	8768

As on 7th Feb, 2017

Share Price Performance



Share Holding pattern (%)

Particulars	Dec16	Sep16	Jun16
Promoters	42.3	42.3	42.3
FIIIs	14.44	15.47	15.91
DIIIs	25.26	24.65	18.53
Others	18	17.58	23.26
Total	100	100	100

Source : BSE

Analyst

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Key Financials

INR mn (Ind AS)	FY15	FY16	FY17E	FY18E	FY19E
Revenues	41923.60	41619.20	45041.54	50077.19	55963.76
EBITDA	7199.00	10907.40	12654.13	14148.17	15557.21
APAT	2437.00	5849.90	6954.90	8256.09	9392.00
AEPS	10.00	23.00	29.19	34.65	39.41
P/E (x)	30.35	17.53	23.30	19.63	17.25
EV/EBITDA (x)	13.78	14.54	13.94	12.01	10.59

Source: Company Data, KRChoksey Research

Company Overview

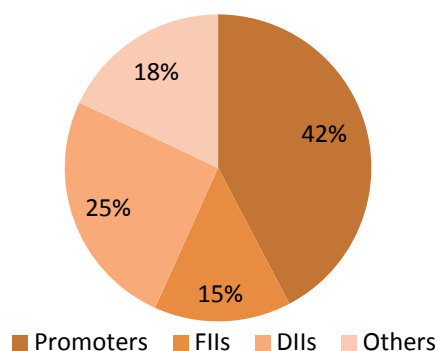
Management team

Name	Designation	Executive / Non-Executive
P R Ramasubrahmaneya Rajha	Chairman & Managing Director	Executive
P R Venketrama Raja	Director	Non-Executive
R S Agarwal	Director	Non-Executive
M B N Rao	Director	Non-Executive
K Selvanayagam	Company Secretary	NA
M M Venkatachalam	Director	Non-Executive
Chitra Venkatraman	Additional Director	Non-Executive

Source: Company Data, KRChoksey Research

Shareholding pattern

Share Holding pattern



Source: Company Data, KRChoksey Research

Fund Holding

Fund (As on December 2016)	Market Value (INR Mn)	No of Shares (Mn)
SBI Mutual Fund	4180.5	7.63
Kotak Mahindra Mutual Fund	3052.65	5.57
Sundaram Mutual Fund	2322.26	4.24
Reliance Mutual Fund	2235.81	4.08
L&T Mutual Fund	2056.3	3.75
UTI Mutual Fund	1422.43	2.60
Tata Mutual Fund	1159.28	2.12
IDFC Mutual Fund	1013.16	1.85

Source: Company Data, KRChoksey Research

Q3FY17 Result update

Particulars (Mn)	Q3FY17	Q2FY17	Q3FY16	Q-o-Q	Y-o-Y
Total Sales	11112.9	11722	9412	-5.2%	18.1%
Total Expenditure	8168.5	8156.1	6869	0.2%	18.9%
Cost of Raw Materials	1649.2	1580.3	1397.5	4.4%	18.0%
Employee Cost	697.8	700.2	650	-0.3%	7.4%
Power and Fuel Costs	1283.2	1203	1153	6.7%	11.3%
Transportation costs	1771.1	1787.7	1475.3	-0.9%	20.1%
Other expenses	1283.2	1360	967	-5.6%	32.7%
Excise duty paid on sales	1484	1524.9	1226.2	-2.7%	21.0%
PBIDT (Excl OI)	2944.4	3566.3	2543	-17.4%	15.8%
<i>EBITDA Margins (%)</i>	<i>26%</i>	<i>30%</i>	<i>27%</i>	<i>-393bps</i>	<i>-52bps</i>
Depreciation	661.4	666.7	678.9	-0.8%	-2.6%
Other Income	18.5	19.1	18.4	-3.1%	0.5%
EBIT	2301.5	2918.7	1882.5	-21.1%	22.3%
Interest	261.1	281.6	420	-7.3%	-37.8%
EBT	2040.4	2637.1	1462.5	-22.6%	39.5%
Tax	521.6	567	279.2	-8.0%	86.8%
PAT	1518.8	2070.1	1183.3	-26.6%	28.4%
<i>PAT Margin (%)</i>	<i>14%</i>	<i>18%</i>	<i>13%</i>	<i>-399bps</i>	<i>109bps</i>
EPS	6.38	8.69	4.97	-26.6%	28.4%

Source: Company Data, KRChoksey Research

Comments:

- Total Sales stood at INR 11112.9 Mn which was up by 18.1% y-o-y and down 5.2% q-o-q. Volume growth stood at 22.26% y-o-y reaching 1.98 MT as against 1.63 MT last year.
- EBIDTA stood at INR 2944.4 Mn which was up by 15.8% y-o-y and down 17.4% q-o-q and EBIDTA margin stood at 26.5% as against 27.02% last year. EBITDA margins reduced 393 bps q-o-q on account of higher COGS coupled with increased power and fuel costs on the back of surge in pet-coke prices.
- Adj.PAT stood at INR 1518.8 Mn which was up by 28.4% y-o-y and down 26.6% q-o-q. PAT Margin stood at 14%. Lower finance costs y-o-y has led to a significant hike in PAT.
- Ramco Cements has outperformed on the volume front in a quarter which was significantly affected by demonetization. However the higher volume growth y-o-y (~22%) was also due to a low-base effect as Q3FY16 performance was impacted due to floods in Tamil Nadu.
- With the demand off-take in Government projects in Andhra Pradesh and Telangana, pick up in Government plans of low-cost "Housing for All" scheme and development of smart cities, we estimate Ramco cements to deliver a robust volume growth going forward

Consolidated Income Statement

INR mn (Ind AS)	FY15	FY16	FY17E	FY18E	FY19E
Total Sales	41923.60	41619.20	45041.54	50077.19	55963.76
COGS	6805.40	5942.80	6528.27	7106.84	8208.83
Employee Expenses	2292.90	2599.20	2859.12	3059.26	3273.41
Power and fuel	7040.00	5269.70	5314.80	6377.76	7334.42
Transportation cost	7957.60	6719.00	7222.93	7880.00	8760.00
Other Expenses	5258.60	4604.60	5070.00	5510.00	6130.00
Excise duty	537.01	557.65	539.23	599.52	669.99
EBITDA	7199.00	10907.40	12654.13	14148.17	15557.21
Other income	849.20	902.90	931.88	1141.59	1397.99
D&A	2512.40	2685.60	2314.70	2361.00	2477.20
EBIT	5535.80	9124.70	11271.31	12928.76	14478.01
Interest Expense	1951.40	1821.30	1335.74	1134.35	1060.87
PBT	3584.40	7303.40	9935.57	11794.41	13417.14
Tax	1147.40	1453.50	2980.67	3538.32	4025.14
Effective tax rate(%)	32%	20%	30%	30%	30%
PAT	2437.00	5849.90	6954.90	8256.09	9392.00

Source: Company Data, KRChoksey Research

Consolidated Balance Sheet

INR mn	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	238.10	238.10	238.10	238.10	238.10
Reserves	26018.10	30494.60	36735.20	44276.99	52954.69
Net worth	26256.20	30732.70	36973.30	44515.09	53192.79
Minority interest	6.10	7.00	7.00	7.00	7.00
Total loans	27341.60	22227.20	16500.00	12504.50	8000.00
Capital Employed	65839.10	66869.40	67207.89	72504.76	77931.74
Net block	48824.60	49323.20	48534.07	47716.21	49112.37
Inventories	5216.50	5501.70	7019.64	7985.22	9223.41
Sundry debtors	3802.20	4684.80	4757.91	5730.66	7882.22
Sundry creditors	2295.80	2092.50	2951.43	2704.29	3241.74
Cash and bank	628.60	911.30	1515.12	4483.72	5089.21
Total Current assets	11184.60	13037.80	15220.25	20322.85	24667.99
Total Current liabilities	4218.40	3379.10	5296.91	5381.43	6781.48
Net Current assets	69662.00	96587.00	99233.35	149414.19	178865.10
Capital Deployed	65839.10	66869.40	67207.89	72504.76	77931.74

Source: Company Data, KRChoksey Research

Consolidated Cash Flow

INR mn	FY15	FY16	FY17E	FY18E	FY19E
PAT	2437.00	5849.90	6954.90	8256.09	9392.00
Depreciation & Amortization	2512.40	2685.60	2314.70	2361.00	2477.20
(Incr)/Decr in Working Capital	1817.30	664.60	-453.88	-2467.30	-2523.15
Cash Flow from Operating	9315.50	10674.20	9456.49	9429.58	10216.94
(Incr)/ Decr in Gross PP&E	-4427.80	-2720.10	-1525.58	-1543.14	-3873.36
Cash Flow from Investing	-4770.60	-2336.40	-615.69	-1166.13	-3392.17
(Decr)/Incr in Debt	5299.20	11166.50	-6227.20	-3495.50	-4504.50
Cash Flow from Financing	-4363.30	-8080.50	-8236.99	-5294.84	-6219.29
Incr/(Decr) in Balance Sheet Cash	111.10	257.30	603.82	2968.61	605.48
Cash at the Start of the Year	454.00	628.60	911.30	1515.12	4483.72
Cash at the End of the Year	628.60	911.30	1515.12	4483.72	5089.21

Source: Company Data, KRChoksey Research

Valuations (Consolidated)

Particulars	FY15	FY16	FY17E	FY18E	FY19E
EBITDA/ton	938.84	1,507.59	1,590.01	1,630.96	1,652.89
Volume (mn tons)	7.67	7.24	7.96	8.67	9.41
Growth (%)					
Total Sales	-1.1%	-0.7%	8.2%	11.2%	11.8%
EBITDA	28.0%	51.5%	16.0%	11.8%	10.0%
APAT	114.9%	137.6%	18.9%	18.7%	13.8%
Profitability (%)					
EBITDA Margin	17.2%	26.2%	28.1%	28.3%	27.8%
NPM	5.9%	14.1%	15.4%	16.5%	16.8%
ROE	9.6%	19.6%	18.8%	18.5%	17.7%
ROCE	9.6%	15.3%	16.8%	17.8%	18.6%
Per share data					
EPS	10.00	23.00	29.19	34.65	39.41
BPS	110.28	129.09	155.30	186.98	223.43
Valuations (x)					
P/E (x)	30.4	17.5	23.3	19.6	17.3
P/BV (x)	2.8	3.1	0.2	0.2	0.1
EV/EBITDA (x)	13.8	14.5	13.9	12.0	10.6
EV/Ton (\$)	116.8	186.7	162.1	156.2	151.5
Net Debt/EBITDA	3.7	2.0	1.1	0.6	0.2
Net Debt/Equity	1.0	0.7	0.4	0.2	0.1
Interest Coverage	2.8	5.0	8.4	11.4	13.6

Source: Company Data, KRChoksey Research

The Ramco Cements Ltd.			
Date	CMP (INR)	Target (INR)	Recommendation
06-Feb-17	680	772	ACCUMULATE
09-Jan-17	580	730	BUY

RATING LEGEND	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0 - 5%
Reduce	-5% - 0
Sell	Less than -5%

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