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India

Materials

Reuters TRCE.NS
Bloomberg TRCL IN

Priced on 6 November 2015

India Sensex @ 26,265.2

12M hi/lo Rs373.10/280.35

12M price target Rs465.00
±% potential +25%

Shares in issue 238.1m
Free float (est.) 57.7%

Market cap US\$1,343m

3M average daily volume
Rs75.2m (US\$1.1m)

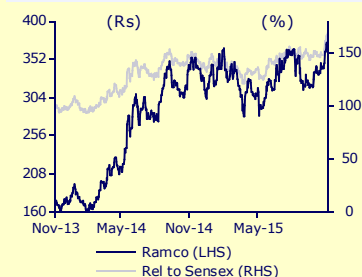
Foreign s'holding 13.7%

Major shareholders

Promoter 42.3%
FIIs 13.7%

Stock performance (%)

	1M	3M	12M
Absolute	9.1	2.5	7.1
Relative	11.9	10.4	13.9
Abs (US\$)	7.1	(1.2)	(0.4)



Source: Bloomberg

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Life-high unit Ebitda

Big divergence between volume and margin

Ramco Cements reported weak volumes, which reflect a tough macro and continuing issues in the markets of south India. Much lower costs, however, led to an estimated unit cement Ebitda of Rs1,400/t, which was a big positive. While management guides for a further reduction in costs, we are unsure about the sustainability of current margins and, hence, moderately upgrade earnings for FY16 and retain our FY17 assumptions. Maintain BUY with a revised target price of Rs465 (Rs425 earlier).

2Q results much better

Ramco saw a 46% YoY rise in Ebitda to Rs2.7bn, which was sharply ahead of our estimate on lower costs. Depreciation costs were in-line while other income (-37% YoY) was lower; even the tax rate was just slightly higher. Pre-ex earnings were also higher at Rs1.3bn, up 41% YoY. Reported earnings were even higher at Rs1.4bn, as they included prior-period tax write-backs.

Volume lowest in 19 quarters...

Cement volume declined 12% to 1.7mt which was a disappointment and reflected a weak macro, continuing pressures in south India (Ramco's key markets) and continuing producer discipline. Cement realisation declined 3% QoQ but rose 6% YoY to Rs251/bag. Overall revenues, including wind power, declined 5% YoY/QoQ.

... but unit Ebitda at a record-high

The company reported a moderation in unit costs of 7-9% QoQ/YoY. The unit cost of production (material plus power & fuel) declined 20% QoQ. While Ramco provided for DMF, we believe that there was a write-back related to an earlier period's liability which the company may have provided in excess. Unit freight costs also declined 10% QoQ, which was another positive. The resultant cement unit Ebitda expanded to around Rs1,400/t, on our estimates, almost close to its all-time high.

Maintain BUY

We have raised our EPS forecast for FY16 by 8% but maintain our FY17 forecast as we lower our volume assumption and also retain our realisation forecast. We continue to rate Ramco as a BUY with a revised target price of Rs465 based on 20x Sep-17CL earnings. A sharp correction in cement pricing, potential government intervention and big cost increases remain key risks.

Financials

Year to 31 March	14A	15A	16CL	17CL	18CL
Revenue (Rsm)	36,321	35,939	36,271	41,322	47,744
Rev forecast change (%)	-	-	(3.9)	(4.8)	(4.8)
Net profit (Rsm)	1,076	2,361	4,030	4,806	6,288
NP forecast change (%)	-	-	7.6	0.4	5.2
EPS (Rs)	4.5	9.9	16.9	20.2	26.4
CL/consensus (11) (EPS%)	-	-	106	97	92
EPS growth (% YoY)	(73.4)	119.4	70.7	19.3	30.8
PE (x)	82.5	37.6	22.0	18.5	14.1
Dividend yield (%)	0.3	0.4	0.8	0.9	0.8
ROE (%)	4.4	9.2	14.4	15.2	17.4
Net debt/equity (%)	115.4	100.2	69.7	43.1	15.2

Source: CLSA

Volumes continued to remain under pressure

We estimate underlying unit cement at Rs1,400/t

Overall pre-ex earnings were much better than our estimates

Underlying energy costs and freight costs corrected quite a bit QoQ

Both businesses reported a QoQ rise in Ebit

Figure 1

Ramco's 2QFY16 results summary

(Rs m)	2QFY1	1QFY16	2QFY16	% YoY	% QoQ	1HFY15	1HFY16	% YoY
Volumes	1.94	1.81	1.71	(12)	(6)	4.07	3.52	(13)
Net Sales	9,221	9,225	8,740	(5)	(5)	18,463	17,966	(3)
Rs/tonne	4,746	5,088	5,108	8	0	4,536	5,098	12
Rs/bag	237	254	255			227	255	
Raw Material	(1,705)	(1,666)	(1,272)	(25)	(24)	(3,571)	(2,937)	(18)
Stock Adjustment	71	(165)	153	117	(193)	19	(12)	(162)
Power, Oil & Fuel	(1,852)	(1,457)	(1,358)	(27)	(7)	(3,830)	(2,815)	(26)
Employee Expenses	(534)	(621)	(682)	28	10	(1,117)	(1,302)	17
Freight	(2,027)	(1,830)	(1,556)	(23)	(15)	(4,170)	(3,386)	(19)
Other Expenses	(1,303)	(1,257)	(1,291)	(1)	3	(2,560)	(2,548)	(0)
Total expenditure	(7,351)	(6,996)	(6,005)	(18)	(14)	(15,228)	(13,000)	(15)
Rs/tonne	(3,783)	(3,859)	(3,509)	(7)	(9)	(3,742)	(3,689)	(1)
Rs/bag	(189)	(193)	(175)			(187)	(184)	
Ebitda	1,870	2,230	2,736	46	23	3,235	4,965	53
Rs/tonne	962	1,230	1,599	66	30	795	1,409	77
Rs/bag	48	61	80			40	70	
Depreciation	(624)	(668)	(671)	8	1	(1,251)	(1,339)	7
Ebit	1,246	1,562	2,064	66	32	1,984	3,626	83
Interest	(480)	(488)	(453)	(6)	(7)	(980)	(940)	(4)
Other Income	318	302	199	(37)	(34)	685	501	(27)
PBT	1,084	1,377	1,811	67	32	1,689	3,187	89
Taxes	(187)	(402)	(543)	191	35	(429)	(945)	120
% rate	17.2	29.2	30.0	1279bp	82bp	25.4	29.6	423bp
Pre-exceptional PAT	897	975	1,267	41	30	1,260	2,242	78
Extraordinary Items	-	-	120			-	120	
Reported PAT	897	975	1,387	55	42	1,260	2,362	88

Source: CLSA, Company data

Figure 2

Per tonne analysis

(Rs/ t)	2QFY15	1QFY16	2QFY16	% YoY	% QoQ	1HFY15	1HFY16	% YoY
Raw Material	841	1,009	654	(22)	(35)	873	837	(4)
Employee	275	342	398	45	16	275	369	35
Power, Oil & Fuel	953	804	794	(17)	(1)	941	799	(15)
Freight	1,043	1,010	909	(13)	(10)	1,025	961	(6)
Other	670	693	754	13	9	629	723	15

Source: CLSA, Company data

Figure 3

Segment information

(Rs m)	2QFY15	1QFY16	2QFY16	% YoY	% QoQ	1HFY15	1HFY16	% YoY
Revenues	9,579	9,526	8,957	(6)	(6)	19,205	18,483	(4)
Cement	9,209	9,388	8,603	(7)	(8)	18,569	17,991	(3)
Wind power	370	138	354	(4)	156	636	492	(23)
Ebit	1,678	2,051	2,609	55	27	2,863	4,659	63
Cement	1,423	2,032	2,374	67	17	2,467	4,406	79
Wind power	255	19	234	(8)	1,153	396	253	(36)

Source: CLSA, Company data

Figure 4

Key assumptions

	FY13	FY14	FY15	16CL	17CL	18CL
Total volumes	8.4	8.6	7.7	7.1	7.7	8.4
% YoY	11	3	(11)	(7)	9	9
Blended realisations	4,532	4,225	4,687	5,109	5,364	5,686
% YoY	7	(7)	11	9	5	6
Material (Rs/t)	685	882	904	913	954	1,003
Power & fuel (Rs/t)	969	968	918	808	923	961
Freight (Rs/t)	920	960	1,038	1,038	1,090	1,144
Others (Rs/t)	805	819	963	1,034	1,057	1,074
Total cost (Rs/t)	3,379	3,630	3,823	3,792	4,023	4,181
Ebitda (Rs/t)	1,153	595	864	1,316	1,341	1,504
% YoY	(5)	(48)	45	52	2	12
Tax rate (%)	31	18	34	30	30	32
EPS (Rs/share)	17.0	4.5	9.9	16.9	20.2	26.4
% YoY	5	(73)	119	71	19	31

Source: CLSA, Company data

Valuation details

We value Ramco at 20x Sep-17CL earnings which is at premium to historical multiples. Our premium target multiple is based on a strong revival in demand which should help volume growth and also drive better realisations. We now expect strong operating cashflows over the next few years.

Investment risks

The company seems vulnerable to business cycles and cement demand is correlated to economic revival. A delayed recovery is the key risk to our positive view. Volatility in input prices (fuel, oil) also poses a threat to the margin.

We expect a recovery in volumes in FY17

We forecast a modest rise in unit Ebitda in FY17 due to a high base

Summary financials

Year to 31 March	2014A	2015A	2016CL	2017CL	2018CL
Summary P&L forecast (Rsm)					
Revenue	36,321	35,939	36,271	41,322	47,744
Op Ebitda	5,117	6,622	9,346	10,328	12,633
Op Ebit	2,054	4,123	6,663	7,608	9,876
Interest income	1,147	1,379	900	1,013	1,139
Interest expense	(1,881)	(1,938)	(1,807)	(1,754)	(1,768)
Other items	0	-	-	-	0
Profit before tax	1,319	3,564	5,756	6,866	9,247
Taxation	(243)	(1,204)	(1,727)	(2,060)	(2,959)
Minorities/Pref divs	-	-	-	-	-
Net profit	1,076	2,361	4,030	4,806	6,288
Summary cashflow forecast (Rsm)					
Operating profit	2,054	4,123	6,663	7,608	9,876
Operating adjustments	(908)	(1,242)	(2,634)	(2,802)	(3,588)
Depreciation/amortisation	3,063	2,499	2,683	2,720	2,757
Working capital changes	(1,062)	1,977	(488)	(1,054)	(1,255)
Net interest/taxes/other	1,641	2,059	2,391	2,512	3,198
Net operating cashflow	4,788	9,417	8,615	8,984	10,987
Capital expenditure	(5,568)	(4,706)	(1,000)	(1,000)	(1,000)
Free cashflow	(780)	4,711	7,615	7,984	9,987
Acq/inv/disposals	(209)	(507)	-	-	-
Int, invt & associate div	368	148	900	1,013	1,139
Net investing cashflow	(5,410)	(5,065)	(100)	13	139
Increase in loans	807	(3,900)	(3,807)	(1,754)	(1,768)
Dividends	(279)	(279)	(860)	(1,003)	(860)
Net equity raised/other	-	0	-	-	0
Net financing cashflow	528	(4,179)	(4,666)	(2,757)	(2,628)
Incr/(decr) in net cash	(93)	172	3,849	6,239	8,499
Exch rate movements	-	-	-	-	-
Opening cash	540	446	619	4,467	10,706
Closing cash	446	619	4,467	10,706	19,205
Summary balance sheet forecast (Rsm)					
Cash & equivalents	446	619	4,467	10,706	19,205
Debtors	3,040	3,802	3,837	4,372	5,051
Inventories	6,855	5,206	5,254	5,986	6,916
Other current assets	5,557	6,136	6,750	7,425	8,167
Fixed assets	49,953	51,382	49,699	47,979	46,223
Intangible assets	0	0	0	0	0
Other term assets	2,834	3,558	3,558	3,558	3,558
Total assets	68,686	70,703	73,566	80,026	89,120
Short-term debt	7,236	5,536	12,407	12,757	13,107
Creditors	-	-	-	-	-
Other current liabs	6,341	7,238	7,285	7,993	8,894
Long-term debt/CBs	21,866	21,583	12,712	12,362	12,012
Provisions/other LT liabs	8,422	9,894	11,540	13,489	16,253
Minorities/other equity	0	0	0	0	0
Shareholder funds	24,821	26,452	29,622	33,425	38,854
Total liabs & equity	68,686	70,703	73,566	80,026	89,120
Ratio analysis					
Revenue growth (% YoY)	(4.1)	(1.1)	0.9	13.9	15.5
Ebitda growth (% YoY)	(47.5)	29.4	41.1	10.5	22.3
Ebitda margin (%)	14.1	18.4	25.8	25.0	26.5
Net profit margin (%)	3.0	6.6	11.1	11.6	13.2
Dividend payout (%)	22.2	15.1	17.7	17.3	11.4
Effective tax rate (%)	18.4	33.8	30.0	30.0	32.0
Ebitda/net int exp (x)	7.0	11.8	10.3	13.9	20.1
Net debt/equity (%)	115.4	100.2	69.7	43.1	15.2
ROE (%)	4.4	9.2	14.4	15.2	17.4
ROIC (%)	2.9	4.6	7.9	9.2	11.7
EVA@/IC (%)	(10.5)	(8.7)	(5.4)	(4.1)	(1.6)

Source: CLSA

Companies mentioned

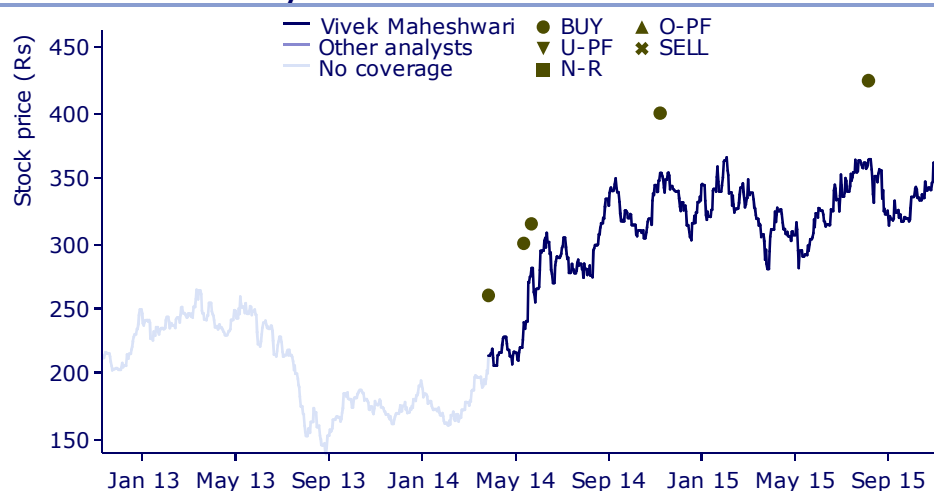
Ramco (TRCL IN - RS373.10 - BUY)

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Date	Rec	Target	Date	Rec	Target
06 Aug 2015	BUY	425.00	13 May 2014	BUY	300.00
07 Nov 2014	BUY	400.00	28 Mar 2014	BUY	260.00
23 May 2014	BUY	315.00			

Source: CLSA

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