

INDUSTRY	CEMENT
CMP (as on 9 Feb 2016)	Rs 374
Target Price	Rs 352
Nifty	7,298
Sensex	24,021

KEY STOCK DATA

Bloomberg	TRCL IN
No. of Shares (mn)	238
MCap (Rs bn) / (\$ mn)	89/1,308
6m avg traded value (Rs mn)	74

STOCK PERFORMANCE (%)

52 Week high / low	Rs 406 / 270		
	3M	6M	12M
Absolute (%)	1.7	2.4	13.5
Relative (%)	9.8	17.4	28.4

SHAREHOLDING PATTERN (%)

Promoters	42.30
FIs & Local MFs	23.45
FIIIs	11.62
Public & Others	22.63

Source : BSE

Ankur Kulshrestha

ankur.kulshrestha@hdfcsec.com
+91-22-6171 7346

Anuj Shah

anuj.shah@hdfcsec.com
+91-22-6171 7321

Top of the league

Ramco Cements (Ramco) reported industry leading numbers with reported EBITDA/t at Rs 1,510/t. While volumes declined ~5.4% YoY (1.63 mT, implied utilisation of ~50%), realisations continued to hold fort in the South (Rs 4,995/t, 9.3% YoY, 1.4% QoQ, 7.4% YoY). Costs declined ~Rs 140/t QoQ, but a part of it may be a one-off given other expenses came off sharply (-23% YoY, -22% QoQ).

Ramco is in a sweet spot, as it enjoys high stable prices and declining energy/fuel costs. We may be sticking our neck out to argue that this may be peak profitability for the South companies, Ramco in particular. Valuations remain challenging given our (and street's) estimates, which likely factor in strong volume growth and stable pricing, something that may not happen in tandem. **Upgrade to NEUTRAL with a TP of Rs 352 (7.5x Sep-17 EV/EBITDA, US\$ 110/t). We look for better entry points to play the debt paydown and equity value creation cycle.**

Financial Summary (Standalone)

(Rs mn)	3QFY16	3QFY15	YoY (%)	2QFY16	QoQ (%)	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	8,119	7,861	3.3	8,740	(7.1)	36,321	35,939	36,151	40,056	44,905
EBITDA	2,446	1,001	144.4	2,736	(10.6)	6,192	7,920	10,598	11,555	13,332
PAT	1,059	230	361.1	1,387	(23.7)	1,376	2,424	4,957	5,078	6,335
Diluted EPS (Rs)	4.45	0.96	361.1	5.83	(23.7)	5.8	10.2	20.8	21.3	26.6
P/E (x)						64.7	36.7	18.0	17.5	14.1
EV / EBITDA (x)						19.0	14.6	10.4	9.1	7.4
RoE (%)						5.7	9.5	17.4	15.6	17.0

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Other operating income came off sharply in the past two quarters, as incentives from Kolaghat ops (VAT exemption in WB) may have been exhausted. Despatches from Kolaghat may trend lower in the future.
- Ramco also pared down its debt by Rs 44bn in 9MFY16, in line with our FY estimates of ~Rs 60bn. Further, some of the debt was refinanced at lower rates recently, replacing Rs 5.0bn high-cost bank term loans (9.2-10%) with debentures (~8.6%).
- Near-term outlook:** Prices in the South continue to hold and they may persist till demand remains weak (YTD ~-3% decline). Declining energy/fuel prices help expand margins further. Cement companies in the South are expected to report strong profitability on lower volumes.

Strong EBITDA growth driven by (1) Sustained high pricing in the South and (2) Sharp decline in other operating expenses and P&F costs

Other operating income has also come off sharply because of exhaustion of incentives from Kolaghat

Volumes declined 5.4% YoY as demand continued to remain sluggish in the South

Prices remained range-bound in the South, while some declines were witnessed in the East

Freight costs declined owing to cheaper fuel and lower dispatches to the East capacity

Quarterly Financials Snapshot

(Rs mn)	3QFY16	3QFY15	YoY (%)	2QFY16	QoQ (%)
Net Sales	8,119	7,861	3.3	8,740	(7.1)
Other operating income	91	298		174	
Power & Fuel	1,153	1,572	(26.7)	1,358	(15.1)
Freight Expenses	1,752	2,150	(18.5)	1,776	(1.4)
RM Costs	1,014	1,178	(13.9)	1,051	(3.5)
Employee costs	638	567		682	
Other Operating Expenses	1,009	1,304	(22.6)	1,291	(21.8)
Changes in stock	107	89		(153)	
EBITDA	2,446	1,001	144.4	2,736	(10.6)
Other Income	18	18		25	
Interest Cost	418	485		453	
Depreciation	679	626		671	
PBT	1,367	(92)		1,636	
Tax	280	2,566		1,871	
RPAT	1,177	230	412.8	1,387	(15.1)
E/o (adj for tax)	(119)	-		(120)	
APAT	1,059	230	361.1	1,267	(16.5)

Source: Company, HDFC sec Inst Research

Per Tonne Analysis

Per tonne data	3QFY16	3QFY15	YoY (%)	2QFY16	QoQ (%)
Volumes (mT)	1.63	1.72	(5.4)	1.71	(5.0)
Realisations (Rs/T)	4,995	4,570	9.3	4,926	1.4
P&F costs (Rs/T)	709	915	(22.5)	794	(10.6)
Freight costs (Rs/T)	1,077	1,251	(13.9)	1,038	3.8
RM costs (Rs/T)	624	685	(9.0)	614	1.5
Employee costs (Rs/T)	392	330	18.7	398	(1.6)
Other costs (Rs/T)	687	811	(15.3)	665	3.2
Cement EBITDA/T (Rs/t, ex Other op. inc.)	1,510	573	163.6	1,302	16.0
Cement implied costs	3,485	3,997	(12.8)	3,624	(3.8)

Source: Company, HDFC sec Inst Research

Valuations continue to remain expensive

Cement volumes are likely to remain constrained in absence of clinker capacity additions

Peer valuations

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	Reco.	EV/EBITDA (x)		P/E (x)		EV/T (US\$)	
					FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
UltraTech Cement	761	2,766	2,450	NEU	18.4	15.7	35.5	19.8	168	163
Shree Cement ^{1,2}	359	10,305	9,191	SELL	12.6	9.6	26.2	19.2	196	181
Ambuja Cement ³	304	198	190	SELL	18.4	10.1	21.7	15.6	126	118
ACC ³	241	1,279	1,165	SELL	16.1	12.1	27.1	16.2	103	98
Ramco Cements	89	374	352	NEU	9.1	7.4	17.5	14.1	124	117
Orient Cement	28	137	180	BUY	7.0	4.1	9.3	5.6	45	42
Birla Corp	29	378	550	BUY	9.5	6.1	20.0	9.8	73	68
Sanghi Industries	11	51	85	BUY	4.3	2.4	6.0	3.7	52	41

Note: Prices as of Feb 9, 2016, close. US\$: INR = 68.0

¹ June YE; ² Shree Cement EV/tonne calculated adjusting power division EV at 5x FY16E EBITDA; ³ December YE

Key Assumptions

Year Ending March	FY14	FY15	FY16E	FY17E	FY18E
Cement volumes (mn t)	8.6	7.7	7.0	7.6	8.2
Realizations (Rs/t)	4,073	4,526	5,001	5,151	5,357
P&F cost/t (Rs/t)	969	1,011	820	874	930
Raw material cost/t (Rs/t)	647	684	573	579	589
Freight cost/t (Rs/t)	1,085	1,230	1,298	1,316	1,335
EBITDA/t	595	860	1,372	1,415	1,510

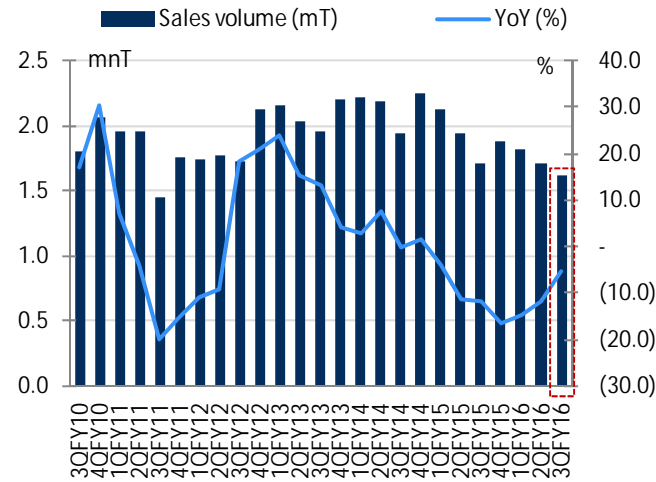
Source: Company, HDFC sec Inst Research

Changes to estimates

Changes to estimates	Old			New			%Change		
	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Volumes (mT)	7.2	7.8	8.4	7.0	7.6	8.2	(2.5)	(3.0)	(2.8)
Realisations (Rs/t)	4,888	5,084	5,287	5,001	5,151	5,357	2.3	1.3	1.3
Revenues (Rs mn)	36,237	40,765	45,600	36,151	40,056	44,905	(0.2)	(1.7)	(1.5)
Operating profits (Rs mn)	10,237	11,654	13,400	10,598	11,555	13,332	3.5	(0.8)	(0.5)
PAT (Rs mn)	4,669	5,038	6,284	4,957	5,078	6,335	6.2	0.8	0.8

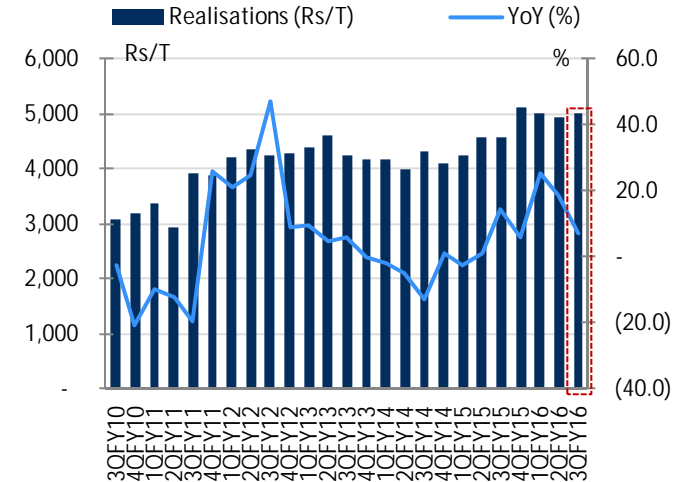
Source: HDFC sec Inst Research

Volumes Declined, But Better Than Expected



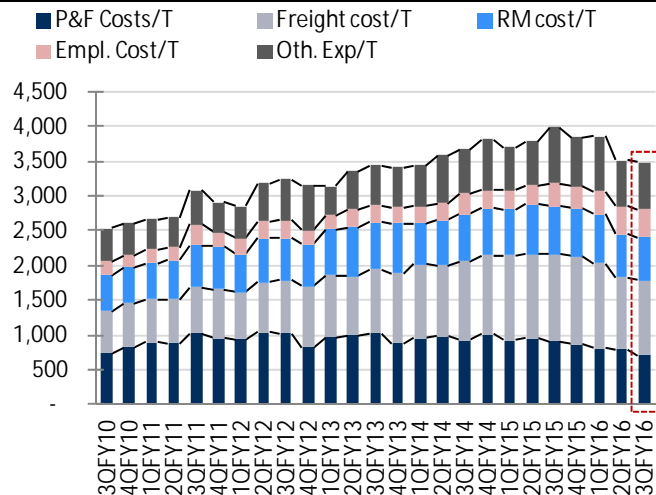
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Strong And Stable Realisations



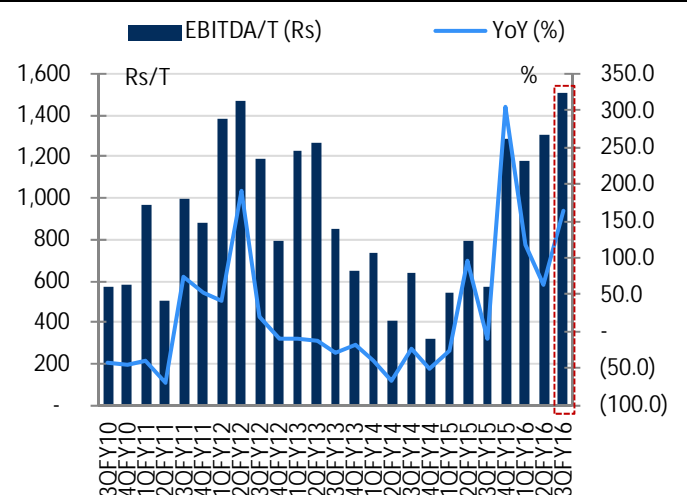
Source: Company, HDFC sec Inst Research

Decline In Op Costs Driven By P&F/Overheads



Source: Company, HDFC sec Inst Research

EBITDA/t At An All-time High



Source: Company, HDFC sec Inst Research

Income Statement

Year ending March (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Net sales	36,321	35,939	36,151	40,056	44,905
Growth %	(4.1)	(1.1)	0.6	10.8	12.1
Material Expenses	18,466	16,860	14,298	16,004	17,975
Employee Expenses	2,218	2,287	2,534	2,801	3,093
SG&A Expenses	10,291	9,889	9,425	10,288	11,255
Other operating expenses	230	281	258	258	258
Operating profits	5,116	6,622	9,636	10,705	12,324
Operating Profit Margin (%)	14.1	18.4	26.7	26.7	27.4
Other operating income	1,076	1,298	962	850	1,008
EBITDA	6,192	7,920	10,598	11,555	13,332
EBITDA %	17.0	22.0	29.3	28.8	29.7
EBITDA Growth %	(40.4)	27.9	33.8	9.0	15.4
Depreciation	3,063	2,499	2,671	2,699	2,727
EBIT	3,129	5,422	7,926	8,856	10,605
Other Income (including EO items)	295	81	73	77	81
Interest	1,881	1,938	1,803	1,354	1,230
PBT	1,543	3,564	6,197	7,579	9,455
Tax	166	1,141	1,239	2,501	3,120
RPAT	1,376	2,424	4,957	5,078	6,335
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	1,376	2,424	4,957	5,078	6,335
APAT Growth (%)	(65.9)	76.1	104.5	2.4	24.8
Adjusted EPS (Rs.)	5.8	10.2	20.8	21.3	26.6
EPS Growth (%)	(65.9)	76.1	104.5	2.4	24.8

Source: Company, HDFC sec Inst Research, Standalone numbers displayed

Balance Sheet

Year ending March (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS					
Share Capital	238	238	238	238	238
Reserves	24,583	26,214	30,297	34,480	39,698
Total Shareholders' Funds	24,821	26,452	30,535	34,718	39,936
Minority Interest	-	-	-	-	-
Long-term Debt	15,204	17,100	11,510	5,747	5,747
Short-term Debt	14,085	10,019	15,192	16,403	13,110
Total Debt	29,288	27,119	26,702	22,150	18,857
Deferred Taxes	7,374	8,271	8,271	8,271	8,271
Long-term Provisions & Others	4,241	4,448	4,448	4,448	4,448
TOTAL SOURCES OF FUNDS	65,723	66,289	69,955	69,586	71,511
APPLICATION OF FUNDS					
Net Block	46,415	48,755	47,584	46,385	45,158
CWIP	3,857	2,747	2,247	1,747	1,247
Investments	2,173	2,385	2,385	2,385	2,385
LT Loans and Advances	3,084	3,646	3,646	3,646	3,646
Total Non-current Assets	55,529	57,533	55,862	54,163	52,436
Inventories	6,855	5,206	5,123	6,322	6,508
Debtors	3,040	3,802	3,084	4,546	4,007
Other Current Assets	2,802	2,154	2,370	2,370	2,370
Cash & Equivalents	1,108	1,792	7,151	6,990	10,309
Total Current Assets	13,804	12,955	17,728	20,228	23,195
Creditors	1,877	2,198	1,418	2,588	1,902
Other Current Liabilities & Provns	1,086	2,216	2,216	2,216	2,216
Total Current Liabilities	2,962	4,414	3,634	4,804	4,118
Net Current Assets	10,842	8,541	14,094	15,424	19,076
TOTAL APPLICATION OF FUNDS	65,723	66,289	69,955	69,586	71,511

Source: Company, HDFC sec Inst Research

Cash Flow

Year ending March (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Reported PBT	1,543	3,564	6,197	7,579	9,455
Non-operating & EO items	(85)	816	(73)	(77)	(81)
Interest expenses	1,881	1,938	1,803	1,354	1,230
Depreciation	3,063	2,499	2,671	2,699	2,727
Working Capital Change	(473)	1,208	21	(1,491)	(333)
Tax paid	(166)	(1,141)	(1,239)	(2,501)	(3,120)
OPERATING CASH FLOW (a)	5,762	8,884	9,380	7,564	9,878
Capex	(4,481)	(4,290)	(1,000)	(1,000)	(1,000)
Free cash flow (FCF)	1,281	4,594	8,380	6,564	8,878
Investments	(177)	(724)	-	-	-
Non-operating Income	295	81	73	77	81
INVESTING CASH FLOW (b)	(4,363)	(4,934)	(927)	(923)	(919)
Debt Issuance/(Repaid)	2,618	(2,169)	(417)	(4,552)	(3,293)
Interest expenses	(1,881)	(1,938)	(1,803)	(1,354)	(1,230)
FCFE	(5,099)	(826)	1,293	4,983	3,604
Share Capital Issuance	-	-	-	-	-
Dividend	(279)	(430)	(874)	(895)	(1,117)
FINANCING CASH FLOW (c)	457	(4,537)	(3,094)	(6,801)	(5,640)
NET CASH FLOW (a+b+c)	1,857	(587)	5,359	(161)	3,319
EO Items/Others	1,955	(1,271)	-	-	-
Closing Cash & Equivalents	1,108	1,792	7,151	6,990	10,309

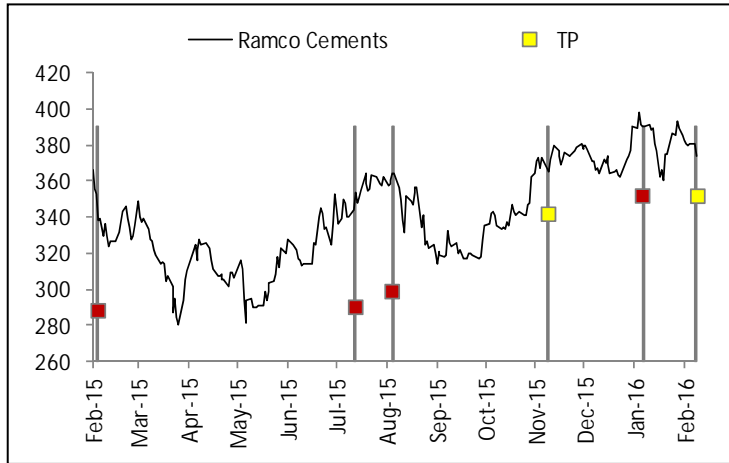
Source: Company, HDFC sec Inst Research

Key Ratios

	FY14	FY15	FY16E	FY17E	FY18E
PROFITABILITY (%)					
EBITDA Margin	17.0	22.0	29.3	28.8	29.7
APAT Margin	3.8	6.7	13.7	12.7	14.1
RoE	5.7	9.5	17.4	15.6	17.0
Core RoCE	8.0	9.1	16.2	16.9	20.1
RoCE	7.9	9.0	15.0	14.5	16.6
EFFICIENCY					
Tax Rate (%)	10.8	32.0	20.0	33.0	33.0
Asset Turnover (x)	0.5	0.5	0.5	0.6	0.7
Inventory (days)	89	89	86	86	87
Debtors (days)	27	35	35	35	35
Payables (days)	23	30	30	30	30
Cash Conversion Cycle (days)	92	94	91	91	91
Debt/EBITDA (x)	4.5	3.6	2.5	2.1	1.5
Net D/E	1.16	1.00	0.68	0.47	0.24
Interest Coverage	2.7	3.4	5.3	7.9	10.0
PER SHARE DATA					
EPS (Rs/sh)	5.8	10.2	20.8	21.3	26.6
CEPS (Rs/sh)	18.7	20.7	32.1	32.7	38.1
DPS (Rs/sh)	1.0	1.5	3.1	3.2	4.0
BV (Rs/sh)	104.3	111.1	128.3	145.9	167.8
VALUATION					
P/E	64.7	36.7	18.0	17.5	14.1
P/BV	3.6	3.4	2.9	2.6	2.2
EV/EBITDA	19.0	14.6	10.4	9.1	7.4
OCF/EV (%)	5.0%	7.5%	8.1%	6.9%	9.4%
FCF/EV (%)	1.1%	3.9%	7.3%	6.0%	8.4%
FCFE/Market Cap (%)	(6.4%)	2.1%	8.8%	11.4%	12.6%

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
6-Feb-15	338	SELL	288
15-Jul-15	353	SELL	290
6-Aug-15	364	SELL	299
9-Nov-15	367	NEU	342
7-Jan-16	398	SELL	352
10-Feb-16	374	NEU	352

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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HDFC securities
Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board : +91-22-6171 7330 www.hdfcsec.com