

INDUSTRY	CEMENT
<b>CMP (as on 9 Feb 2016)</b>	<b>Rs 374</b>
<b>Target Price</b>	<b>Rs 352</b>
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)	
<b>EBITDA</b>	<b>2,446</b>	<b>1,001</b>	<b>144.4</b>	<b>2,736</b>	<b>(10.6)</b>
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
<b>Cement EBITDA/T (Rs/t, ex Other op. inc.)</b>	<b>1,510</b>	<b>573</b>	<b>163.6</b>	<b>1,302</b>	<b>16.0</b>
<b>Cement implied costs</b>	<b>3,485</b>	<b>3,997</b>	<b>(12.8)</b>	<b>3,624</b>	<b>(3.8)</b>

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 <sup>1,2</sup>	359	10,305	9,191	SELL	12.6	9.6	26.2	19.2	196	181
Ambuja Cement <sup>3</sup>	304	198	190	SELL	18.4	10.1	21.7	15.6	126	118
ACC <sup>3</sup>	241	1,279	1,165	SELL	16.1	12.1	27.1	16.2	103	98
<b>Ramco Cements</b>	<b>89</b>	<b>374</b>	<b>352</b>	<b>NEU</b>	<b>9.1</b>	<b>7.4</b>	<b>17.5</b>	<b>14.1</b>	<b>124</b>	<b>117</b>
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

<sup>1</sup> June YE; <sup>2</sup> Shree Cement EV/tonne calculated adjusting power division EV at 5x FY16E EBITDA; <sup>3</sup> 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
<b>EBITDA/t</b>	<b>595</b>	<b>860</b>	<b>1,372</b>	<b>1,415</b>	<b>1,510</b>

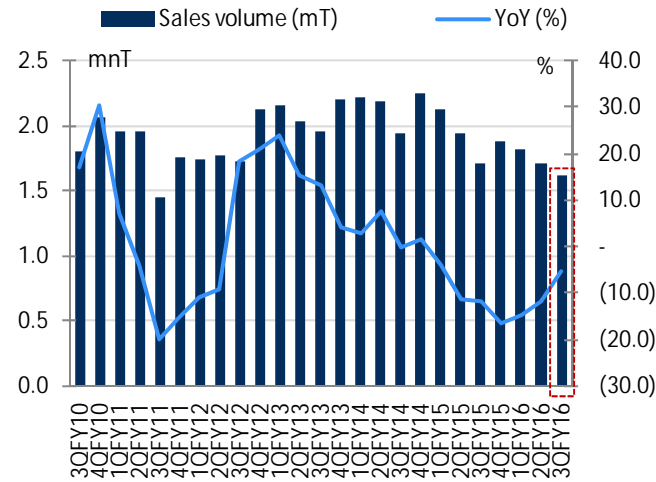
Source: Company, HDFC sec Inst Research

### 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

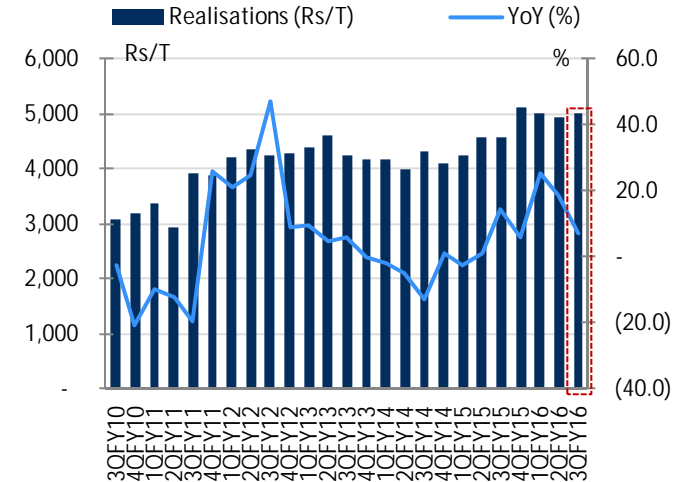
Source: HDFC sec Inst Research

**Volumes Declined, But Better Than Expected**



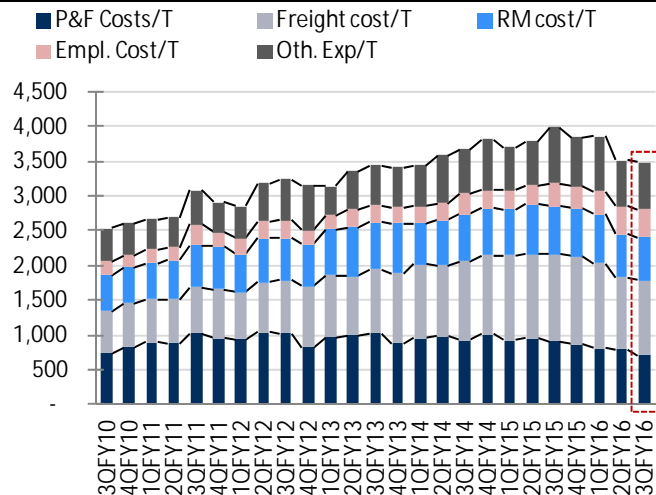
Source: Company, HDFC sec Inst Research

**Strong And Stable Realisations**



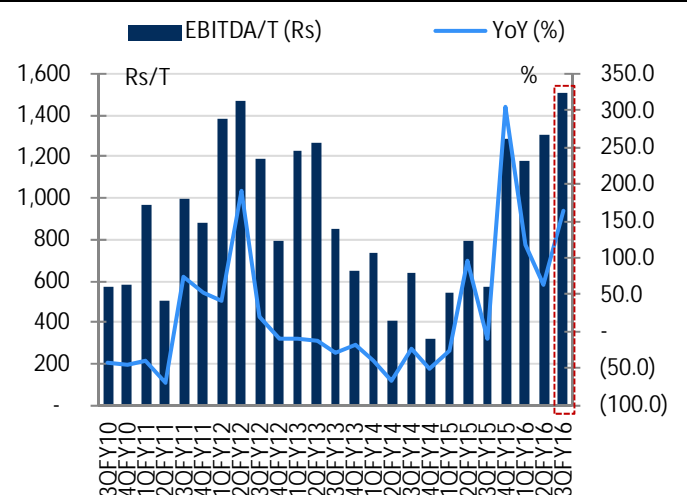
Source: Company, HDFC sec Inst Research

**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
<b>Growth %</b>	<b>(4.1)</b>	<b>(1.1)</b>	<b>0.6</b>	<b>10.8</b>	<b>12.1</b>
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
<b>Operating profits</b>	<b>5,116</b>	<b>6,622</b>	<b>9,636</b>	<b>10,705</b>	<b>12,324</b>
<b>Operating Profit Margin (%)</b>	<b>14.1</b>	<b>18.4</b>	<b>26.7</b>	<b>26.7</b>	<b>27.4</b>
Other operating income	1,076	1,298	962	850	1,008
<b>EBITDA</b>	<b>6,192</b>	<b>7,920</b>	<b>10,598</b>	<b>11,555</b>	<b>13,332</b>
<b>EBITDA %</b>	<b>17.0</b>	<b>22.0</b>	<b>29.3</b>	<b>28.8</b>	<b>29.7</b>
<b>EBITDA Growth %</b>	<b>(40.4)</b>	<b>27.9</b>	<b>33.8</b>	<b>9.0</b>	<b>15.4</b>
Depreciation	3,063	2,499	2,671	2,699	2,727
<b>EBIT</b>	<b>3,129</b>	<b>5,422</b>	<b>7,926</b>	<b>8,856</b>	<b>10,605</b>
Other Income (including EO items)	295	81	73	77	81
Interest	1,881	1,938	1,803	1,354	1,230
<b>PBT</b>	<b>1,543</b>	<b>3,564</b>	<b>6,197</b>	<b>7,579</b>	<b>9,455</b>
Tax	166	1,141	1,239	2,501	3,120
<b>RPAT</b>	<b>1,376</b>	<b>2,424</b>	<b>4,957</b>	<b>5,078</b>	<b>6,335</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>1,376</b>	<b>2,424</b>	<b>4,957</b>	<b>5,078</b>	<b>6,335</b>
<b>APAT Growth (%)</b>	<b>(65.9)</b>	<b>76.1</b>	<b>104.5</b>	<b>2.4</b>	<b>24.8</b>
<b>Adjusted EPS (Rs.)</b>	<b>5.8</b>	<b>10.2</b>	<b>20.8</b>	<b>21.3</b>	<b>26.6</b>
<b>EPS Growth (%)</b>	<b>(65.9)</b>	<b>76.1</b>	<b>104.5</b>	<b>2.4</b>	<b>24.8</b>

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

## Balance Sheet

Year ending March (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
<b>SOURCES OF FUNDS</b>					
Share Capital	238	238	238	238	238
Reserves	24,583	26,214	30,297	34,480	39,698
<b>Total Shareholders' Funds</b>	<b>24,821</b>	<b>26,452</b>	<b>30,535</b>	<b>34,718</b>	<b>39,936</b>
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
<b>Total Debt</b>	<b>29,288</b>	<b>27,119</b>	<b>26,702</b>	<b>22,150</b>	<b>18,857</b>
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
<b>TOTAL SOURCES OF FUNDS</b>	<b>65,723</b>	<b>66,289</b>	<b>69,955</b>	<b>69,586</b>	<b>71,511</b>
<b>APPLICATION OF FUNDS</b>					
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
<b>Total Non-current Assets</b>	<b>55,529</b>	<b>57,533</b>	<b>55,862</b>	<b>54,163</b>	<b>52,436</b>
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
<b>Total Current Assets</b>	<b>13,804</b>	<b>12,955</b>	<b>17,728</b>	<b>20,228</b>	<b>23,195</b>
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
<b>Total Current Liabilities</b>	<b>2,962</b>	<b>4,414</b>	<b>3,634</b>	<b>4,804</b>	<b>4,118</b>
<b>Net Current Assets</b>	<b>10,842</b>	<b>8,541</b>	<b>14,094</b>	<b>15,424</b>	<b>19,076</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>65,723</b>	<b>66,289</b>	<b>69,955</b>	<b>69,586</b>	<b>71,511</b>

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)
<b>OPERATING CASH FLOW ( a )</b>	<b>5,762</b>	<b>8,884</b>	<b>9,380</b>	<b>7,564</b>	<b>9,878</b>
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
<b>INVESTING CASH FLOW ( b )</b>	<b>(4,363)</b>	<b>(4,934)</b>	<b>(927)</b>	<b>(923)</b>	<b>(919)</b>
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)
<b>FINANCING CASH FLOW ( c )</b>	<b>457</b>	<b>(4,537)</b>	<b>(3,094)</b>	<b>(6,801)</b>	<b>(5,640)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>1,857</b>	<b>(587)</b>	<b>5,359</b>	<b>(161)</b>	<b>3,319</b>
EO Items/Others	1,955	(1,271)	-	-	-
Closing Cash & Equivalents	1,108	1,792	7,151	6,990	10,309

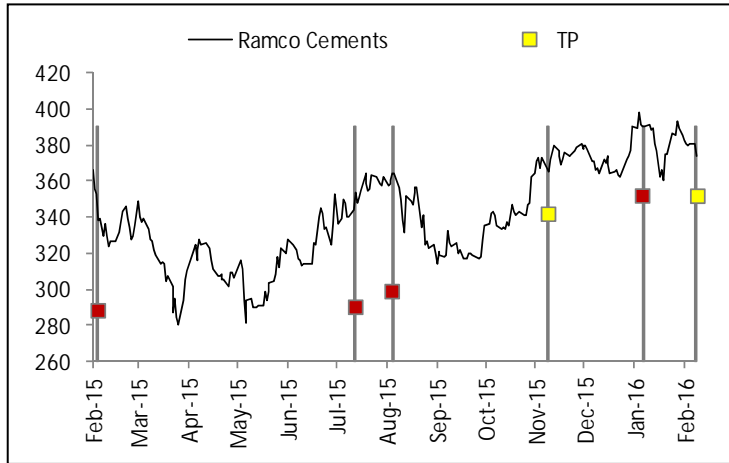
Source: Company, HDFC sec Inst Research

## Key Ratios

	FY14	FY15	FY16E	FY17E	FY18E
<b>PROFITABILITY (%)</b>					
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
<b>EFFICIENCY</b>					
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
<b>PER SHARE DATA</b>					
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
<b>VALUATION</b>					
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:**

We, Ankur Kulshrestha, PGDBM, & Anuj Shah, MSc, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock – No

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HDFC Securities Ltd or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HDFC Securities Ltd.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HDFC Securities Ltd may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HDFC Securities and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HDFC Securities Ltd, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HDFC Securities Ltd and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HDFC Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HDFC Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HDFC Securities or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HDFC Securities nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HDFC Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report. HDFC Securities Ltd. is a SEBI Registered Research Analyst having registration no. INH000002475

**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