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## Cement

Target price Rs720

### Earnings revision

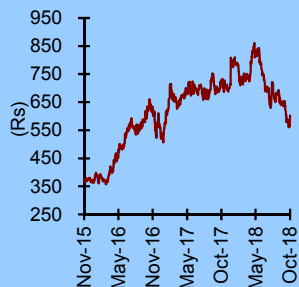
(%)	FY19E	FY20E	FY21E
Sales	↑ 0.5	↑ 0.5	↑ 0.5
EBITDA	↓ 0.2	↓ 0.4	↓ 0.5
EPS	↓ 2.6	↓ 3.0	↓ 3.0

### Shareholding pattern

	Mar '18	Jun '18	Sep '18
Promoters	42.8	42.8	42.8
Institutional investors	33.2	33.6	34.8
MFs and UTI	18.0	18.9	20.9
FIs//Bank/Ins.	2.1	2.0	2.0
FII	13.1	12.7	11.9
Others	24.0	23.6	22.5

Source: CMIE

### Price chart



## INDIA

# Ramco Cements

**BUY**

Maintained

**Rs602**

## Improved realisation led to strong beat

Reason for report: Q2FY19 result review and earnings revision

Ramco Cement (TRCL)'s Q2FY19 EBITDA of Rs2.5bn (down 16% YoY) was above our estimates of Rs2.3bn (significantly above consensus estimates) owing to better than expected cement realisation. Cement realisation increased ~2% QoQ vs our estimate of 0.7% QoQ increase on better than expected prices in East region and market mix change. Volume growth of 15% YoY and cement cost/te increase of 5.7% YoY were broadly in-line with our estimates. We maintain our positive view on the sector as we believe pan-India clinker utilisation is likely to touch 80% by FY20E after almost a decade which would enable companies to take EBITDA-accretive price increases. Besides, pace of cost escalations is likely to decelerate with recent fall in pet coke / diesel prices and new axle load norms providing additional loading capacities. We broadly maintain our FY19E-FY21E EBITDA with unchanged target price at Rs720/share based on 12x Sep'20 EV/E. Maintain BUY as we expect TRCL to register strong ~13% volume CAGR led by expansion in East region and demand recovery in Tamil Nadu / Kerala coupled with likely peaking-out of costs.

- ▶ **Revenue increased 11% YoY to Rs11.8bn (I-Sec: Rs11.5bn):** Cement realisation increased 1.9% QoQ / declined 3.4% YoY to Rs4,622/te (I-Sec: Rs4,568/te) owing to better than expected prices in East region. Cement volumes increased 15% YoY to 2.47mnte led by strong demand growth in South and higher volumes in East region. Export volumes have increased by 77% YoY to 53kte.
- ▶ **Cement EBITDA/te declined 30% YoY to Rs862/te (I-Sec: Rs799/te):** Cement cost/te increased 5.7% YoY as raw material prices plus power cost/te increased 11% YoY led by increase in petcoke and coal prices. Freight expenses increased by 12% YoY due to higher diesel prices. Other expenses/te declined by 7% YoY owing to better operating leverage. PAT declined 29% YoY to Rs1.1bn.
- ▶ **Windmill revenues increased by 16% YoY to Rs394mn** led by similar increase in wind power generation. Windmill power EBITDA increased 17% YoY to Rs343mn.
- ▶ **OCF generation (including other income) in H1FY19 remained seasonally weak at Rs383mn** as the company injected Rs4.2bn working capital. FCF generation in H1FY19 stood at negative Rs3.8bn post capex of Rs3.4bn.
- ▶ **We factor 13% volume CAGR over FY18-FY21E** and expect cement EBITDA/te to improve to Rs1,098/te by FY21E from Rs883/te in H1FY19. With FCF generation of ~Rs8.5bn over FY18-FY21E, we expect net debt to decline by Rs5bn by FY21E.

Market Cap	Rs142bn/US\$1.9bn
Reuters/Bloomberg	RAMC.BO / TRCL IN
Shares Outstanding (mn)	235.6
52-week Range (Rs)	861/561
Free Float (%)	57.2
FII (%)	11.9
Daily Volume (US\$'000)	3,245
Absolute Return 3m (%)	(15.9)
Absolute Return 12m (%)	(17.1)
Sensex Return 3m (%)	(9.4)
Sensex Return 12m (%)	3.2

Year to Mar	2018	2019E	2020E	2021E
Revenue (Rs mn)	44,238	49,896	57,974	66,961
EBITDA (Rs mn)	10,997	10,306	12,699	15,116
Net Income (Rs)	5,514	5,104	6,609	8,162
% Chg YoY	(15.9)	(7.4)	29.5	23.5
P/E (x)	25.6	27.7	21.4	17.3
CEPS (Rs)	35.9	34.2	41.8	50.1
EV/E (x)	13.8	14.6	11.6	9.5
Dividend Yield	0.5	0.5	0.7	0.8
RoCE (%)	9.9	8.9	10.7	12.2
RoE (%)	14.0	11.8	13.8	15.1

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- **Expansions on track:** Company plans to set up an additional clinkerisation capacity of 1.5mnte at its Jayathipuram plant with 27MW WHRS at an investment of Rs8.3bn. TRCL also proposed to expand Vizag and Kolaghat capacities from 0.9mnte to 2mnte each. It also plans to set up a new greenfield unit in Odisha with capacity of 0.9mnte at an investment of Rs11bn. Management is targeting commissioning of these projects in FY20.

**Table 1: Q2FY19 result review***(Rs mn. year ending March 31)*

	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	I-Sec	Variance	%
Volumes (mnte)	2.47	2.15	14.7	2.61	(5.5)	2.43		1.5
Cement realisation (Rs/te)	4,622	4,783	(3.4)	4,537	1.9	4,568		1.2
<b>Net sales</b>	<b>11,806</b>	<b>10,633</b>	<b>11.0</b>	<b>12,046</b>	<b>(2.0)</b>	<b>11,482</b>		<b>2.8</b>
Other operating income	29	31	(5.2)	152	<b>(80.8)</b>	30		<b>(2.3)</b>
Raw material costs	1,854	1,592	16.5	1,808	2.6	1,745		6.3
Personnel costs	839	793	5.8	820	2.4	825		1.7
Power and fuel costs	2,360	1,725	36.8	2,563	(7.9)	2,359		0.0
Freight expenses	2,703	2,107	28.3	2,935	(7.9)	2,648		2.0
Other expenses	1,608	1,508	6.6	1,571	2.3	1,670		(3.7)
<b>Total expenses</b>	<b>9,364</b>	<b>7,726</b>	<b>21.2</b>	<b>9,696</b>	<b>(3.4)</b>	<b>9,247</b>		<b>1.3</b>
<b>EBITDA</b>	<b>2,472</b>	<b>2,939</b>	<b>(15.9)</b>	<b>2,503</b>	<b>(1.3)</b>	<b>2,265</b>		<b>9.1</b>
<b>EBITDA/te incl. windmill (Rs/te)</b>	<b>1,001</b>	<b>1,366</b>	<b>(26.7)</b>	<b>957</b>	<b>4.5</b>	<b>931</b>		<b>7.5</b>
Interest	131	173	(24.0)	114	14.7	114		14.7
Depreciation	728	718	1.4	735	(0.9)	742		(1.9)
Other income	59	72	(18.3)	49	20.1	80		(25.7)
<b>Recurring pre-tax income</b>	<b>1,671</b>	<b>2,120</b>	<b>(21.2)</b>	<b>1,703</b>	<b>(1.9)</b>	<b>1,488</b>		<b>12.3</b>
Extraordinary items	-	77		-		-		
Taxation	527	512	2.9	453	16.2	357		47.5
<b>Reported net income</b>	<b>1,145</b>	<b>1,685</b>	<b>(32.1)</b>	<b>1,250</b>	<b>(8.4)</b>	<b>1,131</b>		<b>1.2</b>
<b>Recurring net income</b>	<b>1,145</b>	<b>1,609</b>	<b>(28.8)</b>	<b>1,250</b>	<b>(8.4)</b>	<b>1,131</b>		<b>1.2</b>
<b>Ratios (%)</b>								
EBITDA margins	20.9	27.6		20.8		19.7		
Net profit margins	9.7	15.1		10.4		9.8		

Source: Company data, I-Sec research

**Table 2: Historical quarterly analysis on per-tonne basis***(Rs/te)*

	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
<b>Sales realisation - only cement</b>	<b>4,783</b>	<b>4,606</b>	<b>4,571</b>	<b>4,537</b>	<b>4,622</b>
Raw materials	740	884	845	692	751
Power & fuel	802	751	795	980	956
Freight	979	995	1,064	1,123	1,095
Staff	369	334	270	314	340
Other expenditure	678	646	597	583	630
<b>Total cost</b>	<b>3,568</b>	<b>3,610</b>	<b>3,571</b>	<b>3,692</b>	<b>3,772</b>
Other operating income	14	13	10	58	12
<b>EBITDA/te – cement*</b>	<b>1,229</b>	<b>1,009</b>	<b>1,011</b>	<b>903</b>	<b>862</b>

Source: Company data, I-Sec research

**Table 3: Per-tonne estimates**

(Rs /te)	FY17	FY18	FY19E	FY20E	FY21E
<b>Net realisations – cement</b>	<b>4,641</b>	<b>4,637</b>	<b>4,642</b>	<b>4,781</b>	<b>4,939</b>
YoY (%)	(5.7)	(0.1)	0.1	3.0	3.3
Raw material consumed	822	806	749	764	801
Power and fuel	621	783	957	988	1,031
Freight	884	997	1,104	1,127	1,161
Others	1,000	984	939	915	886
<b>Total operating expenses</b>	<b>3,328</b>	<b>3,570</b>	<b>3,749</b>	<b>3,794</b>	<b>3,879</b>
YoY (%)	(5.7)	7.3	5.0	1.2	2.2
<b>EBITDA/te incl. windmill</b>	<b>1,425</b>	<b>1,181</b>	<b>976</b>	<b>1,064</b>	<b>1,151</b>
YoY (%)	(11.1)	(17.1)	(17.4)	9.0	8.2
<b>EBITDA/te - cement only</b>	<b>1,383</b>	<b>1,129</b>	<b>934</b>	<b>1,030</b>	<b>1,098</b>
YoY (%)	(9.0)	(18.3)	(17.3)	10.3	6.6

Source: Company data, I-Sec research

**Table 4: Performance trend and assumptions**

	FY17	FY18	FY19E	FY20E	FY21E
Capacity	15,490	15,490	15,765	17,590	18,590
Capacity utilisation (%)	54	60	67	68	72
Sales	8,348	9,312	10,560	11,933	13,364
Growth (%)	16.0	11.5	13.4	13.0	12.0
Realisation (Rs/te)	4,641	4,637	4,642	4,781	4,939
Growth (%)	(5.7)	(0.1)	0.1	3.0	3.3

Source: Company data, I-Sec research

**Table 5: Valuations based on 12x Sep'20E EV/E**

(Rs.mn)	
Target EV/ EBITDA multiple (x)	<b>12</b>
Target EV (Rs mn)	176,529
Net debt / (cash) (Rs mn)	6,879
<b>Target value (Rs mn)</b>	<b>169,652</b>
<b>No. of shares (mn)</b>	<b>236</b>
<b>Target price per share (Rs)</b>	<b>720</b>

Source: I-Sec research

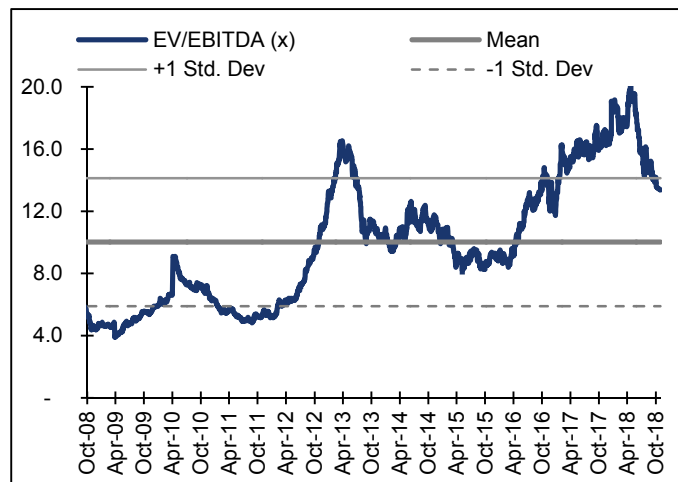
**Table 6: Earnings revision**

(Rs mn)

	FY19E			FY20E			FY21E		
	Revised	Earlier	% chg	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	49,896	49,654	0.5	57,974	57,695	0.5	66,961	66,641	0.5
EBITDA	10,306	10,330	(0.2)	12,699	12,755	(0.4)	15,116	15,191	(0.5)
PAT	5,104	5,240	(2.6)	6,609	6,810	(3.0)	8,162	8,413	(3.0)

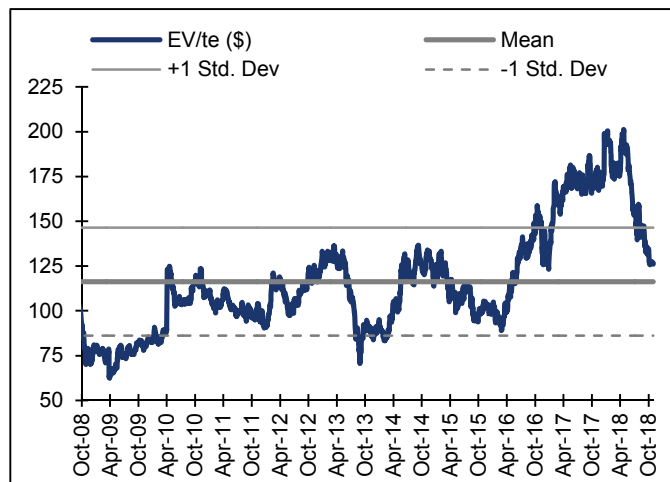
Source: Company data, I-Sec research

**Chart 1: Rolling EV/EBITDA bands**



Source: I-Sec research

**Chart 2: Rolling EV/te**



## Financial summary (consolidated)

Table 7: Profit and Loss statement

(Rs mn, year ending March 31)

	FY18	FY19E	FY20E	FY21E
<b>Operating Income (Sales)</b>	<b>44,025</b>	<b>49,673</b>	<b>57,740</b>	<b>66,715</b>
Other operating income	213	223	235	246
<b>Operating Expenses</b>	<b>33,241</b>	<b>39,590</b>	<b>45,276</b>	<b>51,845</b>
<b>EBITDA</b>	<b>10,997</b>	<b>10,306</b>	<b>12,699</b>	<b>15,116</b>
% margin	25.0	20.7	22.0	22.7
Depreciation & Amortisation	2,935	2,951	3,237	3,647
Gross Interest	600	557	586	452
Other Income	327	242	254	267
<b>Recurring PBT</b>	<b>7,789</b>	<b>7,039</b>	<b>9,129</b>	<b>11,285</b>
Add: Extraordinaries	124	-	-	-
Less: Taxes	2,311	1,971	2,556	3,160
- Current tax	2,010	1,971	2,556	3,160
- Deferred tax	301	-	-	-
<b>Net Income (Reported)</b>	<b>5,638</b>	<b>5,104</b>	<b>6,609</b>	<b>8,162</b>
<b>Recurring Net Income</b>	<b>5,514</b>	<b>5,104</b>	<b>6,609</b>	<b>8,162</b>

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19E	FY20E	FY21E
<b>Assets</b>				
Total Current Assets	14,327	16,453	17,663	19,280
Current Liab. & Prov.	11,760	14,240	16,754	19,633
<b>Net Current Assets</b>	<b>2,567</b>	<b>2,213</b>	<b>909</b>	<b>(352)</b>
<b>Investments of which</b>	<b>3,718</b>	<b>3,718</b>	<b>3,718</b>	<b>3,718</b>
Strategic/Group	3,718	3,718	3,718	3,718
Marketable	-	-	-	-
<b>Net Fixed Assets*</b>	<b>53,535</b>	<b>57,584</b>	<b>63,346</b>	<b>67,700</b>
of which				
Capital Work-in-Progress	1,500	2,500	3,500	3,500
<b>Goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>59,820</b>	<b>63,515</b>	<b>67,973</b>	<b>71,065</b>
of which cash & cash equi.	1,199	1,572	1,045	1,048
<b>Liabilities</b>				
<b>Borrowings</b>	<b>11,206</b>	<b>10,715</b>	<b>9,753</b>	<b>6,097</b>
<b>Deferred Tax Liability</b>	<b>7,532</b>	<b>7,532</b>	<b>7,532</b>	<b>7,532</b>
Minority Interest	32	32	32	4
Equity Share Capital	236	236	236	236
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	40,815	45,000	50,420	57,168
<b>Net Worth</b>	<b>41,051</b>	<b>45,236</b>	<b>50,656</b>	<b>57,404</b>
<b>Total Liabilities</b>	<b>59,820</b>	<b>63,515</b>	<b>67,973</b>	<b>71,065</b>

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs mn, year ending March 31)

	Dec-17	Mar-18	Jun-18	Sep-18
<b>Net sales</b>	<b>10,534</b>	<b>12,519</b>	<b>12,046</b>	<b>11,806</b>
% growth (YoY)	12.4	23.1	18.5	11.0
<b>Recurring EBITDA</b>	<b>2,353</b>	<b>2,722</b>	<b>2,503</b>	<b>2,472</b>
Margin (%)	22.3	21.7	20.8	20.9
Other income	52	190	49	59
Extraordinaries Inc / (Loss)	-	(288)	-	-
<b>Recurring Net Income</b>	<b>1,227</b>	<b>1,374</b>	<b>1,250</b>	<b>1,145</b>

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY18	FY19E	FY20E	FY21E
<b>Operating Cashflow</b>	<b>8,105</b>	<b>7,887</b>	<b>9,697</b>	<b>11,658</b>
Working Capital changes	1,511	655	672	1,148
Capital Commitments	(4,388)	(7,000)	(9,000)	(8,000)
<b>Net Operating FCF</b>	<b>5,229</b>	<b>1,542</b>	<b>1,369</b>	<b>4,806</b>
<b>Investing Activities</b>	<b>327</b>	<b>242</b>	<b>254</b>	<b>267</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	(1,683)	-	-	-
Inc(Dec) in Borrowings	(3,166)	(491)	(961)	(3,656)
Dividend paid	(848)	(919)	(1,190)	(1,414)
Others	20	(0)	0	(0)
Extraordinary Items	124	-	-	-
<b>Chg. in Cash &amp; Bank</b>	<b>1</b>	<b>373</b>	<b>(527)</b>	<b>3</b>

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY18	FY19E	FY20E	FY21E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	23.9	21.7	28.1	34.6
Diluted Recurring EPS	23.4	21.7	28.1	34.6
Diluted Recurring CEPS	35.9	34.2	41.8	50.1
Dividend per share	3.0	3.2	4.2	5.0
Book Value	174	192	215	244
<b>Growth Ratios (% YoY)</b>				
Operating Income	11.5	12.8	16.2	15.5
EBITDA	(7.5)	(6.3)	23.2	19.0
Recurring Net Income	(16.8)	(7.4)	29.5	23.5
Diluted Recurring EPS	(15.9)	(7.4)	29.5	23.5
Diluted Recurring CEPS	(8.1)	(4.7)	22.2	19.9
<b>Valuation Ratios (x)</b>				
P/E	25.6	27.7	21.4	17.3
P/CEPS	16.7	17.5	14.4	12.0
P/BV	3.4	3.1	2.8	2.5
EV / EBITDA	13.8	14.6	11.6	9.5
EV / te (US\$)	144	125	112	103
EV / Operating Income	3.4	3.0	2.6	2.2
EV / Operating FCF	15.7	17.6	14.5	11.4
<b>Operating Ratios (%)</b>				
Raw Material / Sales	17.0	15.9	15.8	16.0
Other expenses / Sales	58.5	63.8	62.6	61.7
Other Income / PBT	4.2	3.4	2.8	2.4
Effective Tax Rate	29.7	28.0	28.0	28.0
NWC / Total Assets	0.0	0.0	(0.0)	(0.0)
Inventory (x)	3.1	3.3	3.3	4
Receivables (days)	40	34	33	33
Payable (days)	29	28	31	33
D/E Ratio (x)	0.2	0.2	0.3	0.2
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	12.4	10.2	11.4	12.2
RoCE	9.9	8.9	10.7	12.2
RoNW	14.0	11.8	13.8	15.1
Dividend Payout	12.8	15.0	15.0	14.4

Source: Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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### ANALYST CERTIFICATION

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