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Rating	BUY
Price	Rs374
Target Price	Rs490
Implied Upside	31.0%
Sensex	24,021
Nifty	7,298

(Prices as on February 09, 2016)

Trading data

Market Cap. (Rs bn)	88.9
Shares o/s (m)	238.0
3M Avg. Daily value (Rs m)	73

Major shareholders

Promoters	42.30%
Foreign	15.46%
Domestic Inst.	23.01%
Public & Other	19.23%

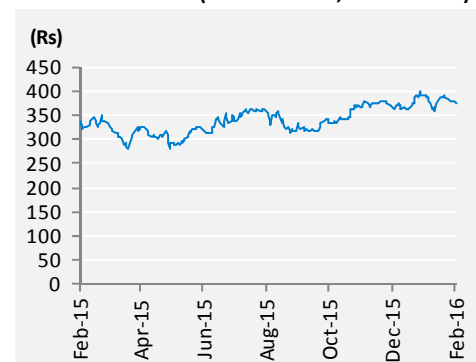
Stock Performance

(%)	1M	6M	12M
Absolute	(4.3)	2.4	13.5
Relative	(0.7)	17.4	28.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	23.7	21.9	8.4
2018	30.6	28.4	7.7

Price Performance (RIC: TRCE.BO, BB: TRCL IN)



Source: Bloomberg

The Ramco Cements (TRCL) reported Q3FY16 earnings way ahead of our expectation on the back of beat across the fronts. Demand in the region continued to remain sluggish due to subdued demand across sectors and delay in recovery expected on account of formation of new states. We expect recovery to kickstart in couple of quarters on the back of enhanced focus of state governments on infra spending, stabilisation of newly formed states, new capital development in Amaravati and revival in small scale housing demand sponsored under various state government schemes. In this backdrop, we like TRCL as the best play on recovery in the South underpinned by highly competitive operations. We reiterate "BUY" with TP of Rs490 (earlier TP: Rs447), an EV/EBITDA of 12x FY17.

- Beat across the counts:** Marred by floods in Tamil Nadu, cement volumes fell 5.4% YoY to 1.63m tonnes, ahead of our estimate of 1.51m tonnes. Realisations rose 9.3% YoY (Rs424)/1.4% QoQ (Rs70) to Rs4,995, exceeding our estimate of Rs4,870. Total cost/t fell 13% YoY (Rs504)/0.6% QoQ (Rs20) to Rs3489 below our estimate of Rs3783 due to lower than expected freight cost and other expenses. Hence, EBITDA/t rose 2.6x/Rs930 YoY to Rs1506 ahead of our expectation of Rs1087. Led by higher margins, EBITDA rose 2.4x YoY at Rs2.4bn (PL:Rs1.6bn). Aided by lower interest expense, PAT (adjusted for prior year tax write back of Rs119m) grew 4.6x YoY at Rs1.06b (PL:Rs0.50bn).
- EPS estimates revised upward by 12%/7% for FY16/FY17:** We revise upward our EBITDA estimate for FY16/FY17 by 11%/7% on the back of steep cut in costs. EPS estimate is revised upward by 12%/7% at Rs19.3/Rs23.7 helped by lower interest cost (due to lower interest rate) and higher EBITDA.

Key financials (Y/e March)

	2015	2016E	2017E	2018E
Revenues (Rs m)	35,939	35,048	39,676	45,765
Growth (%)	(1.1)	(2.5)	13.2	15.3
EBITDA (Rs m)	6,622	10,181	11,622	13,913
PAT (Rs m)	2,361	4,590	5,636	7,277
EPS (Rs)	9.9	19.3	23.7	30.6
Growth (%)	135.9	94.5	22.8	29.1
Net DPS (Rs)	5.0	7.0	7.9	9.3

Profitability & Valuation

	2015	2016E	2017E	2018E
EBITDA margin (%)	18.4	29.0	29.3	30.4
RoE (%)	9.2	16.2	17.4	19.4
RoCE (%)	6.3	9.9	11.1	12.6
EV / EBITDA (x)	17.4	11.1	9.6	7.8
EV / Tonne (\$)	142.1	128.4	127.2	13,053.1
PE (x)	37.7	19.4	15.8	12.2
P / BV (x)	3.4	3.0	2.6	2.2
Net dividend yield (%)	1.3	1.9	2.1	2.5

Source: Company Data; PL Research

Exhibit 1: Q3FY16 Result Overview (Rs m)

Y/e March	Q3FY16	Q3FY15	YoY gr. (%)	Q2FY16	9MFY16	9MFY15	YoY gr. (%)
Net Sales	8,119	7,861	3.3	8,740	26,084	26,325	(0.9)
Raw Material	1,398	1,604	(12.9)	1,119	4,346	5,156	(15.7)
<i>% of Net Sales</i>	<i>17.2</i>	<i>20.4</i>		<i>12.8</i>	<i>16.7</i>	<i>19.6</i>	
Staff Costs	638	567	12.4	682	1,940	1,685	15.1
<i>% of Net Sales</i>	<i>7.9</i>	<i>7.2</i>		<i>7.8</i>	<i>7.4</i>	<i>6.4</i>	
Power & Fuel	1,153	1,572	(26.7)	1,358	3,968	5,402	(26.5)
<i>% of Net Sales</i>	<i>14.2</i>	<i>20.0</i>		<i>15.5</i>	<i>15.2</i>	<i>20.5</i>	
Freight and selling expenses	1,475	1,812	(18.6)	1,556	4,862	5,982	(18.7)
<i>% of Net Sales</i>	<i>18.2</i>	<i>23.1</i>		<i>17.8</i>	<i>18.6</i>	<i>22.7</i>	
Other Expenses	1,009	1,304	(22.6)	1,291	3,557	3,864	(7.9)
<i>% of Net Sales</i>	<i>12.4</i>	<i>16.6</i>		<i>14.8</i>	<i>13.6</i>	<i>14.7</i>	
Total Expenditure	5,673	6,860	(17.3)	6,005	18,673	22,089	(15.5)
EBITDA	2,446	1,001	144.4	2,736	7,411	4,236	75.0
<i>Margin (%)</i>	<i>30.1</i>	<i>12.7</i>		<i>31.3</i>	<i>28.4</i>	<i>16.1</i>	
Depreciation	679	626	8.4	671	2,018	1,877	7.5
Other income	109	317	(65.5)	199	610	1,001	(39.1)
EBIT	1,876	691	171.4	2,263	6,003	3,360	78.7
Interest	418	485	(13.8)	453	1,358	1,465	(7.3)
PBT	1,458	206	607.2	1,811	4,645	1,895	145.1
Extraordinary income/(expense)	-	-		(120)	-	-	
PBT (After EO)	1,458	206	607.2	1,691	4,645	1,895	145.1
Tax	399	(24)	NA	543	1,344	406	231.1
<i>% PBT</i>	<i>27.4</i>	<i>-11.4</i>		<i>32.1</i>	<i>28.9</i>	<i>21.4</i>	
Reported PAT	1,177	230	412.8	1,147	3,539	1,489	137.7
Adjusted PAT	1,059	230	361.1	1,267	3,301	1,489	121.6

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q3FY16	Q3FY15	YoY gr. (%)	Q2FY16	9MFY16	9MFY15	YoY gr. (%)
Volume (m te)-Cement	1.63	1.72	(5.4)	1.71	5.15	5.79	(11.0)
Cement Realisations (Rs/te)	4,995	4,570	9.3	4,926	4,982	4,454	11.9
Cement EBITDA/ te (Rs/te)	1,506	577	161.2	1,417	1,356	637	112.7
Cement revenue	8,213	8,149	0.8	8,603	26,204	26,718	(1.9)
Windmills revenue	37	61	(39.9)	354	529	698	(24.1)

Source: Company Data, PL Research

EPS estimates revised upward by 12%/7% for FY16/FY17

We revise our volume estimate marginally upward by 1%/1% for FY16/FY17 to 6.9m/7.6m t. Realisation estimates for FY16 are kept unchanged at Rs4995 while realisations for FY17 are marginally cut by 1% to Rs5143.

We increase our EBITDA/t estimate for FY16/FY17 by 10%/6% to Rs1,400/Rs1,457 due to lower costs. Hence, EBITDA estimate for FY16/FY17 is revised upwards by 11%/7% to Rs10.2bn/11.6bn. PAT estimate for FY16/FY17 is revised upwards by 12%/7% to Rs4.6bn/5.6bn.

Exhibit 3: Change in estimates

	FY16			FY17		
	Prior to revision	Post revision	% change	Prior to revision	Post revision	% change
Revenue (Rs m)	34,670	35,048	1.1	39,618	39,676	0.1
EBITDA (Rs m)	9,211	10,181	10.5	10,834	11,622	7.3
PAT (Rs m)	4,117	4,590	11.5	5,256	5,636	7.2
EPS (Rs.)	17.3	19.3	11.5	22.1	23.7	7.2
Cement vol (m tonnes)	6.8	6.9	1.1	7.5	7.6	1.1
Realisation/t-Cement	4,996	4,995	(0.0)	5,193	5,143	(1.0)
Total cost/t-Cement	3,721	3,594	(3.4)	3,825	3,686	(3.6)
EBITDA/t-Cement	1,275	1,401	9.9	1,368	1,457	6.5

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016E	2017E	2018E
Net Revenue	35,939	35,048	39,676	45,765
Raw Material Expenses	6,805	6,497	7,348	8,350
Gross Profit	29,133	28,550	32,328	37,415
Employee Cost	2,287	2,607	2,946	3,329
Other Expenses	20,224	15,763	17,760	20,174
EBITDA	6,622	10,181	11,622	13,913
Depr. & Amortization	2,499	2,761	2,815	2,905
Net Interest	1,938	1,784	1,718	1,613
Other Income	1,379	922	963	1,000
Profit before Tax	3,564	6,558	8,052	10,395
Total Tax	1,141	1,967	2,416	3,119
Profit after Tax	2,424	4,590	5,636	7,277
Ex-Od items / Min. Int.	(63)	—	—	—
Adj. PAT	2,361	4,590	5,636	7,277
Avg. Shares O/S (m)	238.0	238.0	238.0	238.0
EPS (Rs.)	9.9	19.3	23.7	30.6

Cash Flow Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
C/F from Operations	9,417	8,813	9,511	11,178
C/F from Investing	(5,065)	(3,847)	(5,839)	(5,831)
C/F from Financing	(4,179)	(4,414)	(3,136)	(3,240)
Inc. / Dec. in Cash	172	552	535	2,106
Opening Cash	401	573	1,125	1,661
Closing Cash	573	1,125	1,661	3,767
FCFF	1,017	5,717	5,279	6,925
FCFE	(966)	3,517	4,779	6,425

Key Financial Metrics

Y/e March	2015	2016E	2017E	2018E
Growth				
Revenue (%)	(1.1)	(2.5)	13.2	15.3
EBITDA (%)	29.4	53.7	14.2	19.7
PAT (%)	135.9	94.5	22.8	29.1
EPS (%)	135.9	94.5	22.8	29.1
Profitability				
EBITDA Margin (%)	18.4	29.0	29.3	30.4
PAT Margin (%)	6.6	13.1	14.2	15.9
RoCE (%)	6.3	9.9	11.1	12.6
RoE (%)	9.2	16.2	17.4	19.4
Balance Sheet				
Net Debt : Equity	1.0	0.8	0.7	0.5
Net Wrkng Cap. (days)	147	130	135	138
Valuation				
PER (x)	37.7	19.4	15.8	12.2
P / B (x)	3.4	3.0	2.6	2.2
EV / EBITDA (x)	17.4	11.1	9.6	7.8
EV / Sales (x)	3.2	3.2	2.8	2.4
Earnings Quality				
Eff. Tax Rate	32.0	30.0	30.0	30.0
Other Inc / PBT	38.7	14.1	12.0	9.6
Eff. Depr. Rate (%)	3.5	3.7	3.7	3.7
FCFE / PAT	(40.9)	76.6	84.8	88.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016E	2017E	2018E
Shareholder's Funds	26,452	30,124	34,633	40,455
Total Debt	27,119	24,919	24,419	23,919
Other Liabilities	12,320	12,273	13,156	14,293
Total Liabilities	65,890	67,316	72,208	78,667
Net Fixed Assets	51,503	52,741	55,927	59,022
Goodwill	—	—	—	—
Investments	3,558	3,558	3,558	3,558
Net Current Assets	10,830	11,016	12,723	16,086
Cash & Equivalents	619	1,171	1,706	3,812
Other Current Assets	15,024	15,355	16,867	18,878
Current Liabilities	4,813	5,509	5,850	6,604
Other Assets	—	—	—	—
Total Assets	65,890	67,316	72,208	78,667

Quarterly Financials (Rs m)

Y/e March	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Net Revenue	9,614	9,225	8,740	8,119
EBITDA	2,386	2,230	2,736	2,446
% of revenue	24.8	24.2	31.3	30.1
Depr. & Amortization	622	668	671	679
Net Interest	96	185	254	309
Other Income	378	302	199	109
Profit before Tax	1,669	1,377	1,811	1,458
Total Tax	735	402	423	280
Profit after Tax	934	975	1,387	1,177
Adj. PAT	934	975	1,267	1,059

Key Operating Metrics

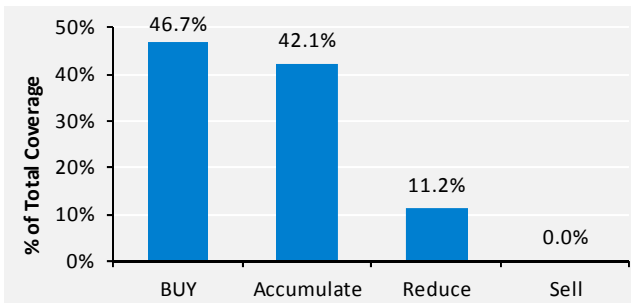
Y/e March	2015	2016E	2017E	2018E
Volume (mn te)-Cement	7.5	6.9	7.6	8.4
Cement Realisations-Cement (Rs/te)	4,704.8	4,930.7	5,078.6	5,332.5
Cement EBITDA (Rs/te)	803.0	1,401.0	1,456.6	1,591.7
Raw material cost (Rs/te)	887.5	941.5	968.0	999.9
Power & Fuel cost (Rs/te)	918.1	693.6	707.1	732.5
Freight cost (Rs/te)	1,037.8	957.8	986.6	1,026.0

Source: Company Data, PL Research.

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