

The Ramco Cements | HOLD



Volumes surprise positively; price stability key monitorable

Ramco Cement (Ramco) 2QFY20 EBITDA exceeded expectations on higher volumes. Revenues grew 11% YoY primarily on 10% volume growth. Cement realisations declined by 5.6% on a sequential basis (+1.8% YoY). Blended EBITDA/t grew by 8% as increase in realisations and lower freight costs was partially offset by increase in power/fuel and fixed costs. Wind power segment reported a decline of 19%/22% YoY in volume/value terms in 2QFY20. Ramco is in the process of expanding the capacity from 16.7 MTPA to 20.8 MTPA by FY21, through a mix of greenfield and brownfield projects across South and East at a cost of INR 35.3bn. It has so far incurred a capex INR 14.3bn on the ongoing expansion program. Net debt has increased by INR 7.87bn in 1H to INR 23.1bn as on Sep'19. Going forward, stability in the cement prices and timely execution of clinker expansion (clinker utilisation > 90% for FY19) are key monitorable. We maintain Hold with a TP of INR 710 (Sep'20).

- 10% Volume growth drives revenues:** Revenue for the quarter at INR 13.17bn grew 11.2% YoY, driven primarily by volume growth. Volumes at 2.72mnT grew 10.3% YoY (6.6% higher than JMFe) as exports grew by 39% in 1HFY20. Cement realisations at INR 4,708/t declined by 5.6% on a sequential basis (+1.8% YoY; in-line with JMFe). The sequential decline in realisations was owing to softening prices in South/East. Ramco reported a wind power revenue of INR 306mn in 2Q (vs INR 394mn last year), on lower power unit generation (113.8 mn units vs. 141.2mn units). Realisations too declined by 3.5% for the segment. Ramco windfarms generated a revenue of INR 66.4mn in 2Q (-24% YoY) generating 16.6mn units of electricity (vs. 21.8mn units in 2QFY19).
- EBITDA beat led by higher volumes:** EBITDA for 2QFY20 at INR 2.95bn grew by 19.4% YoY (vs. INR 2.73bn - 8% ahead of JMFe). Blended EBITDA/t for 2Q at INR 1,084/t grew by 8.3% YoY. Increase in EBITDA/t was led by increase in realisations (INR 40/t impact) and lower freight (INR 104/t impact) partially offset by increase in power/fuel costs (-INR 40/t impact) and higher fixed costs (-INR 39/t impact). Employee expenses included INR 12.8mn of one time impact on account of employee separation scheme in Mathod plant. Power segment reported an operating profit of INR 253.7mn at 83% margins during 2Q (vs. INR 342.3mn at 87% margins last year). Ramco Windfarms generated an EBITDA of INR 54.4mn at 82% margins (vs. INR 74mn at 85% margins last year). Company reported an effective tax rate of 21%. Reported PAT for 2Q at INR 1.68bn grew 47% YoY.
- Other details:** i) 1MTPA expansion at Kolaghat in West Bengal commenced production from 26Sep'19; ii) Haridaspur (0.9MTPA) and Vizag (1.1MTPA) expansion is progressing as expected. Jayanthipuram (1.5MTPA clinker and WHR of 27MW) and Kurnool expansion (2.25/1MTPA clinker/grinding) is expected to be completed by Mar'20 and Mar'21 respectively; iv) Gross debt/Net debt has increased by INR 8.2bn/INR 7.87bn in 1H to INR 24.4bn/INR 23.1bn as on Sep'19. Average cost of borrowing is 7.55%; v) Ramco generated INR 1.5bn (INR 1.1bn in 1HFY19) of operating cash flow in 1H.
- Maintain HOLD:** We continue to value the stock at 10x EVE and roll forward the target price. Maintain HOLD with a TP of INR 710 (Sep'20).

Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	710
Upside/(Downside)	-8.5%
Previous Price Target	680
Change	4.4%

Key Data – TRCL IN

Current Market Price	INR776
Market cap (bn)	INR182.8/US\$2.6
Free Float	42%
Shares in issue (mn)	235.6
Diluted share (mn)	235.6
3-mon avg daily val (mn)	INR239.8/US\$3.4
52-week range	845/554
Sensex/Nifty	40,052/11,844
INR/US\$	70.9

Price Performance

%	1M	6M	12M
Absolute	3.2	0.2	28.9
Relative*	-0.4	-2.3	9.1

* To the BSE Sensex

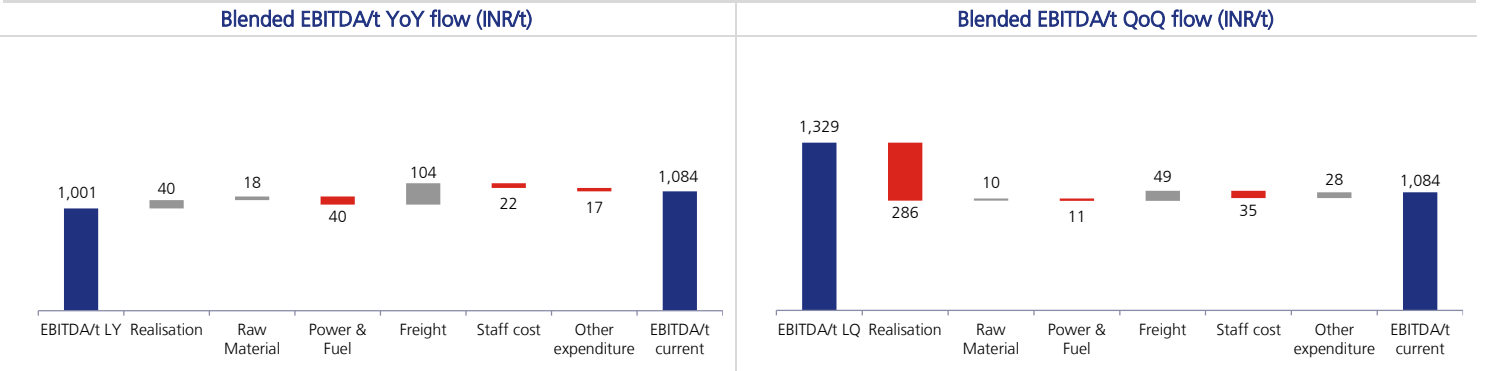
Financial Summary					(INR mn)
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E
Net Sales	44,025	51,368	58,781	70,678	80,218
Sales Growth (%)	11.5	16.7	14.4	20.2	13.5
EBITDA	11,127	10,445	13,844	17,153	19,777
EBITDA Margin (%)	25.1	20.2	23.4	24.1	24.5
Adjusted Net Profit	5,642	5,107	7,596	9,836	11,519
Diluted EPS (INR)	23.9	21.7	32.2	41.8	48.9
Diluted EPS Growth (%)	-14.0	-9.5	48.7	29.5	17.1
ROIC (%)	12.2	10.1	13.2	15.1	16.0
ROE (%)	14.3	11.8	15.7	17.7	17.9
P/E (x)	31.3	34.5	23.2	17.9	15.3
P/B (x)	4.3	3.9	3.4	3.0	2.6
EV/EBITDA (x)	16.8	18.4	14.0	11.4	9.4
Dividend Yield (%)	0.4	0.4	0.6	0.8	1.0

Source: Company data, JM Financial. Note: Valuations as of 30/Oct/2019

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

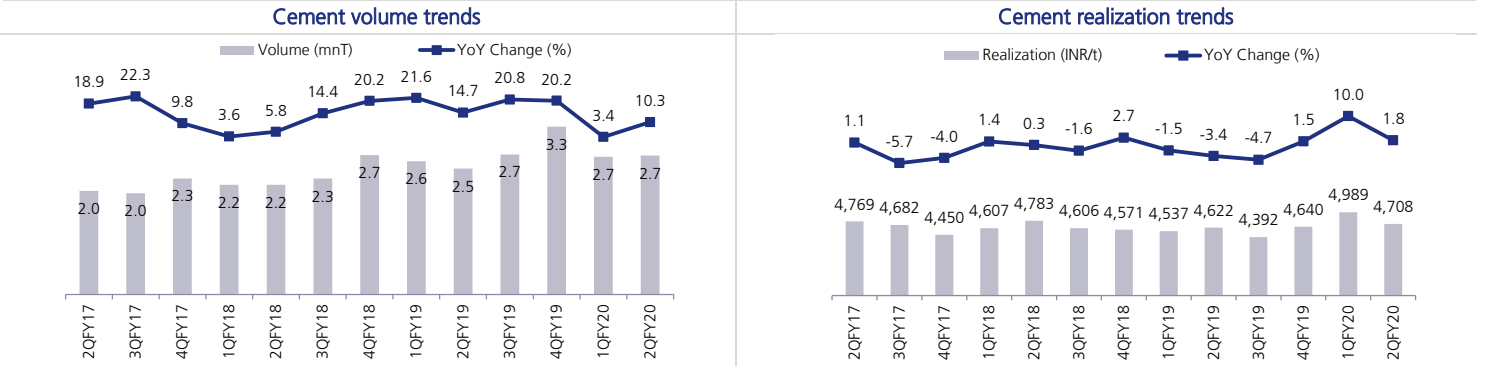
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. EBITDA/t flow



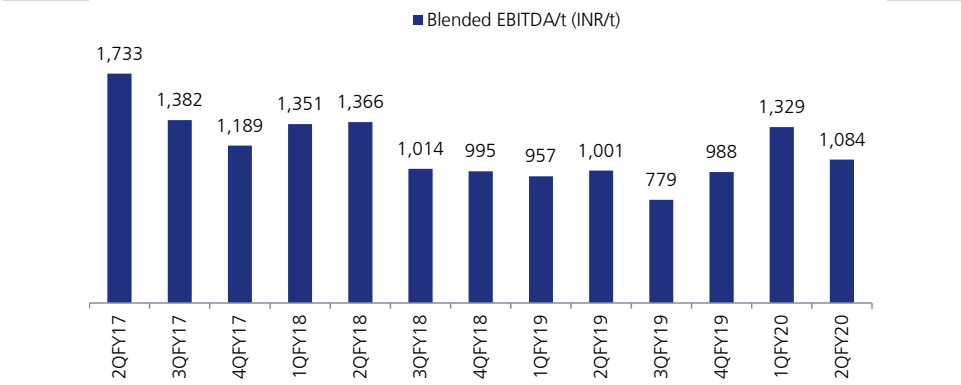
Source: Company, JM Financial

Exhibit 2. Cement volume growth aids revenue growth



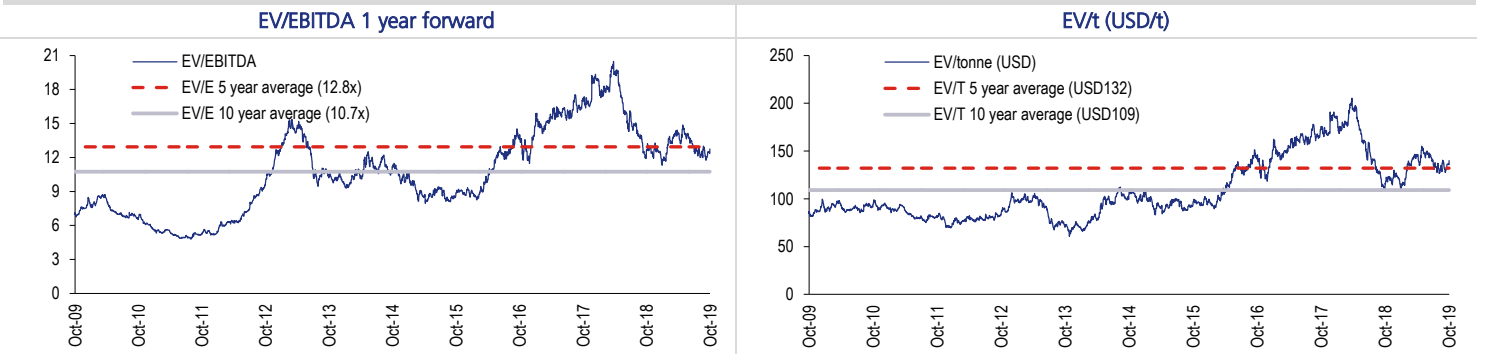
Source: Company, JM Financial

Exhibit 3. EBITDA/t trends



Source: Company, JM Financial

Exhibit 4. Valuation charts



Source: Company, JM Financial

Exhibit 5. Results in brief

	2QFY20	2QFY19	%YoY	1QFY20	%QoQ	2QFY20	% Diff	FY20E	FY19	%YoY
Net Sales(excluding excise)	12,824	11,413	12.4	13,486	-4.9	12,324	4.1	58,214	50,602	15.0
Other Operating Income	343	423	-18.9	353	-2.9	100		859	860	-0.2
Total Revenues	13,167	11,835	11.2	13,839	-4.9	12,424	6.0	59,073	51,463	14.8
Expenditure	10,215	9,364	9.1	10,246	-0.3	9,698	5.3	45,229	41,097	10.1
EBITDA	2,952	2,472	19.4	3,593	-17.8	2,726	8.3	13,844	10,365	33.6
% margin	22.4	20.9	150 bps	26.0	-350 bps	21.9	48 bps	23.4	20.1	330 bps
Other income	92	59	56.0	82	13.1	60	53.7	340	284	19.5
Interest	147	131	12.3	135	8.9	140	5.2	839	509	64.8
Depreciation	765	728	5.1	758	1.0	770	-0.6	3,211	2,985	7.6
PBT	2,132	1,671	27.5	2,782	-23.4	1,876	13.6	10,135	7,156	41.6
Tax	450	527	-14.5	862	-47.8	469	-4.0	2,534	2,097	20.8
% tax rate	21.1	31.5		31.0		25.0		25.0	29.3	
PAT (before Associate/MI)	1,682	1,145	46.9	1,920	-12.4	1,407	19.5	7,601	5,059	50.2
Share of Profit from Associates	0	0		0		0		0	0	
MI	0	0		0		0		0	0	
PAT (Adjusted)	1,682	1,145	46.9	1,920	-12.4	1,407	19.5	7,601	5,059	50.2
Extraordinary items	0	0		0		0		0	0	
PAT (Reported)	1,682	1,145	46.9	1,920	-12.4	1,407		7,601	5,059	50.2
EPS (INR)	7.1	4.9	46.9	8.1	-12.4	6.0		32.3	21.5	50.2
Key Operational matrix										
Cement sales (mn tonnes)	2.72	2.47	10.3	2.70	0.8	2.56	6.6	12.32	11.12	10.8
Realisation (INR/tonne)	4,708	4,622	1.8	4,989	-5.6	4,670	0.8	4,725	4,551	3.8
Cement EBITDA INR/tonne	991	863	14.7	1,270	-22.0	935	6.0	1,084	884	22.6
Blended EBITDA INR/tonne	1,084	1,001	8.3	1,329	-18.5	1,067	1.6	1,124	932	20.6

Source: Company, JM Financial

Exhibit 6. Expenses breakdown

	2QFY20	2QFY19	%YoY	1QFY20	%QoQ	2QFY20	% Diff	FY20E	FY19	%YoY
Raw material	2,116	1,784	18.6	2,151	-1.6	1,865	13.5	8,826	8,286	6.5
INR/tonne	777	723	7.5	796	-2.4	730	6.4	716	745	-3.9
Power and fuel	2,713	2,360	14.9	2,661	1.9	2,394	13.3	11,940	10,573	12.9
INR/tonne	996	956	4.2	984	1.2	937	6.3	969	951	1.9
Freight	2,698	2,703	-0.2	2,811	-4.0	2,657	1.5	12,624	11,880	6.3
INR/tonne	990	1,095	-9.5	1,040	-4.8	1,040	-4.8	1,025	1,068	-4.1
(Inc)/dec in stock	-120	70	-270.9	-142	-15.8	0		248	183	35.4
INR/tonne	-44	28	-254.9	-53	-16.5	0		20	16	22.3
Total Variable cost	7,407	6,917	7.1	7,480	-1.0	6,916	7.1	33,638	30,922	8.8
INR/tonne	2,719	2,802	-2.9	2,767	-1.7	2,707	0.5	2,730	2,781	-1.8
Staff cost	987	839	17.6	884	11.7	881	12.0	3,741	3,295	13.6
INR/tonne	362	340	6.6	327	10.8	345	5.0	304	296	2.5
Other expenditure	1,821	1,608	13.2	1,882	-3.3	1,900	-4.2	7,849	6,881	14.1
INR/tonne	668	651	2.6	696	-4.0	744	-10.1	637	619	3.0
Total fixed cost	2,808	2,447	14.7	2,766	1.5	2,781	0.9	11,590	10,176	13.9
INR/tonne	1,031	991	4.0	1,023	0.7	1,088	-5.3	941	915	2.8
Tot expenditure excluding excise	10,215	9,364	9.1	10,246	-0.3	9,698	5.3	45,229	41,097	10.1
Cost INR/tonne	3,750	3,793	-1.1	3,791	-1.1	3,795	-1.2	3,671	3,696	-0.7

Source: Company, JM Financial

Company background

- Established in 1961, Ramco Cements (formerly Madras Cements) is the largest cement producer in South India with an annual turnover of INR36bn (FY16). The company's current total cement production capacity is c.17.5MT. Ramco also operates one of the largest wind farms in the country.

Key investment arguments:

- 4.1MTPA expansion in pipeline expected to be commissioned by FY21:** This includes i) expansion at its Vizag grinding unit from 0.9MTPA to 2MTPA; ii) expansion at the Kolaghat grinding unit from 0.9MTPA to 2MTPA; iii) new grinding unit at Odisha with capacity of 0.9MTPA; iv) Brownfield clinker expansion of 1.5MTPA in Jayanthipuram and; v) Greenfield integrated unit of 1MTPA (2.25MTPA clinker) in Kalavatala in AP. With this expansion, its overall capacity would stand enhanced from 16.5MTPA to 20.8MTPA. The estimated capex expected to be incurred is INR 35.3bn (USD 122/t), to be met through a mix of borrowings and internal accruals.
- South India to enter upcycle only by 2026:** Ramco is predominantly present in the South India market, which is saturated in terms of cement capacity. With the current capacity utilisation at sub-60% levels and highest expansion potential available in the region, we expect the region to enter an upcycle only by FY26. Additionally, the company is facing the medium-term challenge of muted demand as well as increasing pricing pressure. It has begun to expand its footprint in the high-growth East market through a mix of greenfield and brownfield expansions. The Eastern operations will form c.15% of its total capacity after expansion.
- Balance sheet remains strong:** Ramco has reduced its debt over the last few years from INR 29bn in FY14 to INR 15.4bn in FY19. Despite the expansion under implementation, balance sheet will be in a comfortable position.

Key Risks

- With the expansion due to be commissioned, Ramco may capture the sizable incremental demand resulting from southern/eastern regions.

Valuation and View

- We value the stock at 10x EV/EBITDA to arrive at TP of INR 710 (Sep'20). We maintain our HOLD rating on the stock.

Exhibit 7. Volume, realisation and cost outlook

	FY18	FY19	FY20E	FY21E	FY22E
Cement Sales (mn tonnes)	9.3	11.1	12.3	14.2	15.5
YoY Growth (%)	11.5	19.5	10.8	15.4	9.3
Cement Realisations (INR/tonne)	4,572	4,508	4,661	4,871	5,066
YoY Growth (%)	0.3	-1.4	3.4	4.5	4.0
Power & Fuel (INR/tonne)	777	945	963	992	1,022
Freight (INR/tonne)	989	1,061	1,019	1,049	1,081
Raw Material (INR/tonne)	759	685	712	748	785
Cement EBIDTA (INR/tonne)	1,089	853	1,029	1,118	1,187

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E	
Net Sales	44,025	51,368	58,781	70,678	80,218	
Sales Growth	11.5%	16.7%	14.4%	20.2%	13.5%	
Other Operating Income	225	255	292	351	398	
Total Revenue	44,250	51,623	59,073	71,028	80,616	
Cost of Goods Sold/Op. Exp	6,955	7,849	9,074	10,974	12,575	
Personnel Cost	3,097	3,379	3,741	4,444	5,002	
Other Expenses	23,071	29,951	32,413	38,457	43,262	
EBITDA	11,127	10,445	13,844	17,153	19,777	
EBITDA Margin	25.1%	20.2%	23.4%	24.1%	24.5%	
EBITDA Growth	-7.9%	-6.1%	32.5%	23.9%	15.3%	
Depn. & Amort.	2,937	3,000	3,211	3,343	4,101	
EBIT	8,190	7,445	10,633	13,810	15,676	
Other Income	327	250	340	340	340	
Finance Cost	600	514	839	1,201	852	
PBT before Excep. & Forex	7,917	7,181	10,135	12,949	15,163	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	7,917	7,181	10,135	12,949	15,163	
Taxes	2,312	2,106	2,534	3,108	3,639	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	63	47	5	5	5	
Reported Net Profit	5,642	5,107	7,596	9,836	11,519	
Adjusted Net Profit	5,642	5,107	7,596	9,836	11,519	
Net Margin	12.7%	9.9%	12.9%	13.8%	14.3%	
Diluted Share Cap. (mn)	235.6	235.6	235.6	235.6	235.6	
Diluted EPS (INR)	23.9	21.7	32.2	41.8	48.9	
Diluted EPS Growth	-14.0%	-9.5%	48.7%	29.5%	17.1%	
Total Dividend + Tax	850	849	1,369	1,773	2,077	
Dividend Per Share (INR)	3.0	3.0	4.8	6.3	7.3	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E	
Shareholders' Fund	41,126	45,370	51,597	59,660	69,102	
Share Capital	236	236	236	236	236	
Reserves & Surplus	40,891	45,134	51,361	59,424	68,867	
Preference Share Capital	0	0	0	0	0	
Minority Interest	40	47	52	57	62	
Total Loans	11,206	16,369	16,869	19,869	19,869	
Def. Tax Liab. / Assets (-)	7,887	8,642	8,642	8,642	8,642	
Total - Equity & Liab.	60,259	70,428	77,160	88,228	97,675	
Net Fixed Assets	53,543	60,906	69,743	80,400	79,298	
Gross Fixed Assets	83,059	86,061	100,061	119,130	122,130	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	31,265	33,680	36,891	40,234	44,335	
Capital WIP	1,749	8,526	6,573	1,503	1,503	
Investments	3,835	4,206	4,206	4,206	4,206	
Current Assets	14,316	16,922	17,495	20,796	33,663	
Inventories	5,613	5,611	7,226	8,688	9,861	
Sundry Debtors	4,430	4,901	5,608	6,743	7,653	
Cash & Bank Balances	1,202	948	522	388	10,501	
Loans & Advances	388	439	629	756	858	
Other Current Assets	2,684	5,023	3,510	4,221	4,791	
Current Liab. & Prov.	11,436	11,606	14,283	17,174	19,493	
Current Liabilities	2,683	2,584	2,956	3,555	4,035	
Provisions & Others	8,753	9,022	11,327	13,619	15,458	
Net Current Assets	2,880	5,316	3,211	3,622	14,171	
Total - Assets	60,259	70,428	77,159	88,227	97,675	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY18A	FY19A	FY20E	FY21E	FY22E	
Profit before Tax	7,917	7,181	10,135	12,949	15,163	
Depn. & Amort.	2,937	3,000	3,211	3,343	4,101	
Net Interest Exp. / Inc. (-)	600	514	839	1,201	852	
Inc (-) / Dec in WCcap.	1,559	-975	1,678	-544	-436	
Others	-41	-197	0	0	0	
Taxes Paid	-1,730	-1,597	-2,534	-3,108	-3,639	
Operating Cash Flow	11,242	7,926	13,328	13,841	16,042	
Capex	-4,945	-12,025	-12,047	-14,000	-3,000	
Free Cash Flow	6,297	-4,098	1,282	-159	13,042	
Inc (-) / Dec in Investments	-101	-143	0	0	0	
Others	147	147	0	0	0	
Investing Cash Flow	-4,900	-12,021	-12,047	-14,000	-3,000	
Inc / Dec (-) in Capital	-1,681	0	0	0	0	
Dividend + Tax thereon	-852	-853	-1,369	-1,773	-2,077	
Inc / Dec (-) in Loans	-4,731	7,863	500	3,000	0	
Others	-666	-481	-839	-1,201	-852	
Financing Cash Flow	-7,930	6,529	-1,708	26	-2,929	
Inc / Dec (-) in Cash	-1,587	2,434	-426	-134	10,112	
Opening Cash Balance	2,790	-1,486	948	522	388	
Closing Cash Balance	1,202	948	522	388	10,501	

Source: Company, JM Financial

Dupont Analysis		FY18A	FY19A	FY20E	FY21E	FY22E
Net Margin		12.7%	9.9%	12.9%	13.8%	14.3%
Asset Turnover (x)		0.7	0.8	0.8	0.9	0.9
Leverage Factor (x)		1.5	1.5	1.5	1.5	1.4
RoE		14.3%	11.8%	15.7%	17.7%	17.9%

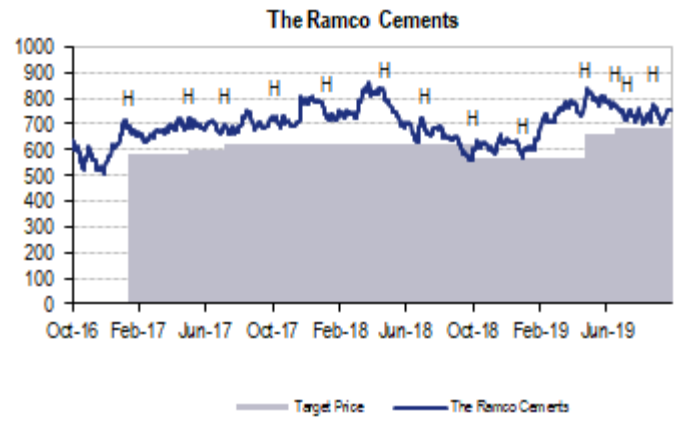
Key Ratios		FY18A	FY19A	FY20E	FY21E	FY22E
BV/Share (INR)		174.6	192.6	219.0	253.2	293.3
ROIC		12.2%	10.1%	13.2%	15.1%	16.0%
ROE		14.3%	11.8%	15.7%	17.7%	17.9%
Net Debt/Equity (x)		0.2	0.3	0.3	0.3	0.1
P/E (x)		31.3	34.5	23.2	17.9	15.3
P/B (x)		4.3	3.9	3.4	3.0	2.6
EV/EBITDA (x)		16.8	18.4	14.0	11.4	9.4
EV/Sales (x)		4.2	3.7	3.3	2.8	2.3
Debtor days		37	35	35	35	35
Inventory days		46	40	45	45	45
Creditor days		30	23	24	24	24

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
8-Feb-17	Hold	580	
30-May-17	Hold	600	3.4
4-Aug-17	Hold	625	4.2
3-Nov-17	Hold	625	0.0
6-Feb-18	Hold	625	0.0
24-May-18	Hold	620	-0.8
2-Aug-18	Hold	620	0.0
30-Oct-18	Hold	570	-8.1
29-Jan-19	Hold	570	0.0
23-May-19	Hold	660	15.8
17-Jul-19	Hold	680	3.0
7-Aug-19	Hold	680	0.0
23-Sep-19	Hold	680	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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