

Sparkling performance continues

We maintain BUY on Ramco Cements (TRCL), with a TP of Rs430. Boosted by strong supply discipline, lowering cost pressure and increasing plant efficiency, TRCL delivered another strong quarterly performance (EBITDA/adjusted PAT growth of 46%/41% YoY). Persisting supply discipline in the south, lower input cost outlook and expected demand improvement in the south should drive TRCL's 28% EBITDA CAGR during FY15-17E. TRCL's efforts to increase petcoke consumption, CPP additions and lower lead distance as the Vizag grinding unit ramps up will add to its cost efficiency. Amid lower capex during FY16/17E, strong cash flow generation should lead to debt reduction, strengthening its balance sheet.

- **Stable strong pricing drives strong profitability:** While weak demand continued to hurt sales volume which declined 12% YoY, sticky supply discipline led to 7% YoY NSR growth. This drove cement revenue decline of 5%, but strong realisation and lower costs boosted cement EBITDA by 59% YoY. Wind power revenue/EBITDA declined 5%/17% YoY. Subsequently, total EBITDA rose 46% YoY. Cement EBITDA/MT stood at Rs1445 – highest quarterly performance in past 10 years!
- **Operating costs moderating despite declining utilisation:** TRCL's opex per MT declined 8% YoY and 10% QoQ. Adjusted for higher DMF provision made in Q1FY16, opex is down 7% YoY and QoQ. This is driven by lower fuel costs as TRCL consumed 40% petcoke and 60% imported coal. Further, its freight cost moderated YoY and QoQ, benefitting from lower diesel prices, railways' off-season rebates and TRCL's reduction in lead distance. Employee cost rose 28% YoY on annual increments as well as impact of wage board revisions. We expect further cost efficiency as TRCL's 18MW CPP commences production, the Vizag grinding unit starts receiving grid power supply and its railway siding becomes operational (all expected in FY16). Total opex per MT came in 10% lower than our estimates which more than offset for 1.5% lower-than-estimated NSR. Hence, EBITDA per MT and EBITDA came in 23%/32% ahead of our estimates.
- **Lower capex; debt reduction gaining pace:** TRCL is working towards kiln replacement at Jayantipuram (Andhra Pradesh) in FY16E at a capex of Rs1bn. This will augment its clinker/grinding capacities by 0.4/0.5mn MT each. TRCL is targeting total capex of ~Rs2.5bn in FY16E. It incurred capex of Rs850mn in H1FY16. TRCL paid off Rs1.8bn during H1FY16. It is further targeting to lower debt as well as lower debt cost by replacing a part of its debt with low-cost NCDs.
- **Valuation and risks:** We value the company at 8.5x its Sept'17E EBITDA, leading to a TP of Rs430 (no change). We marginally raise our EBITDA estimates for FY16/17E by 2%/1% as we trim our volume assumptions by 4%/5% (on weak demand) which is offset by ~6% reduction in opex/MT. Key downside risks: disruption in pricing discipline, sustained weak demand would curtail price hikes in FY17E, and sharp spike in coal/diesel prices will reduce cost benefits.

Y/E Mar (Rsmn)	Q2FY16	Q2FY15	YoY (%)	Q1FY16	QoQ (%)	Q2FY16E	Variance %
Net Sales	8,740	9,221	(5.2)	9,225	(5.3)	8,879	(1.6)
Op. cost	6,005	7,351	(18.3)	6,996	(14.2)	6,808	(11.8)
EBITDA	2,736	1,870	46.3	2,230	22.7	2,070	32.1
EBITDA margin (%)	31.3	20.3	1,102	24.2	713	23.3	798
Depreciation	671	624	7.6	668	0.6	660	1.7
Interest	453	480	(5.7)	488	(7.2)	450	0.6
Other Income	199	318	(37.4)	302	(34.2)	200	(0.6)
Taxes paid	543	187	191.3	402	35.2	232	134.1
PBT	1,811	1,084	67.1	1,377	31.5	1,160	56.0
Adjusted PAT	1,267	897	41.3	975	30.0	928	36.5

Source: Company, Centrum Research Estimate, Standalone Financials

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	APAT	YoY (%)	DEPS Rs.	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY14	36,321	(4.1)	5,116	14.1	1,230	(69.6)	5.2	5.1	2.8	72.2	22.3
FY15P	35,939	(1.1)	6,622	18.4	2,361	91.9	9.9	9.2	4.5	37.6	17.0
FY16E	35,859	(0.2)	9,097	25.4	3,942	67.0	16.6	14.0	7.3	22.5	11.7
FY17E	42,985	19.9	11,677	27.2	6,099	54.7	25.6	18.9	10.2	14.6	8.6
FY18E	50,882	18.4	14,150	27.8	8,136	33.4	34.2	21.3	12.1	10.9	6.6

Source: Company, Centrum Research Estimates, Standalone Financials

Target Price	Rs430	Key Data	
CMP*	Rs373	Bloomberg Code	TRCL
Upside (%)	15%	Curr Shares O/S (mn)	238.1
Previous Target	Rs430	Diluted Shares O/S(mn)	238.1
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	88.8/1.4
Price Performance (%)*		52 Wk H / L (Rs)	380/270
	1M 6M 1Yr	5 Year H / L (Rs)	380/76
TRCL IN	9.1 26.8 7.1	Daily Vol. (3M NSE Avg.)	222216
Nifty	(2.4) (1.8) (4.6)		

*as on 6 November 2015; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Sep-15	Jun-15	Mar-15	Dec-14
Promoter	42.3	42.3	42.3	42.3
FIs	13.7	15.5	16.9	18.0
Dom. Inst.	24.5	23.0	21.0	19.2
Public & Others	19.5	19.2	19.8	20.5

Source: BSE, *as on 6 November 2015

Operating trends - Cement

	Q2FY16	Q2FY15	YoY (%)	Q1FY16	QoQ (%)
Sales vol (mn MT)	1.7	1.9	(11.9)	1.8	(5.6)
Rs/MT trend					
NSR	5,028	4,680	7.4	5,134	(2.1)
Raw materials	654	841	(22.3)	1,009	(35.2)
Power & fuel	794	953	(16.7)	804	(1.3)
Freight	909	1,043	(12.8)	1,010	(9.9)
Employee	398	275	44.9	342	16.4
Other Expenses	701	642	9.3	653	7.4
Opex	3,457	3,755	(7.9)	3,818	(9.5)
EBITDA	1,445	800	80.6	1,194	21.0

Source: Company, Centrum Research

Earning Revisions summary

Particulars (Rs bn)	FY16E			FY17E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	35.9	38.6	(7.1)	43.0	46.1	(6.8)
EBITDA	9.1	8.9	2.3	11.7	11.5	1.3
Ebitda margin (%)	25.4	23.0		27.2	25.0	
Adj PAT	3.9	4.1	(4.7)	6.1	6.2	(2.3)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY16E			FY17E		
	Centrum	BBG	Var (%)	Centrum	BBG	Var (%)
Net Sales	35.9	39.4	(8.9)	43.0	45.5	(5.5)
EBITDA	9.1	9.2	(1.4)	11.7	11.3	3.5
PAT	3.9	3.8	4.9	6.1	5.4	13.2

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
18	2	3	392	430	9.7

*as on 6 November 2015; Source: Bloomberg, Centrum Research Estimates

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Valuation & Key assumptions

Exhibit 1: Rolling forward EV/EBITDA chart

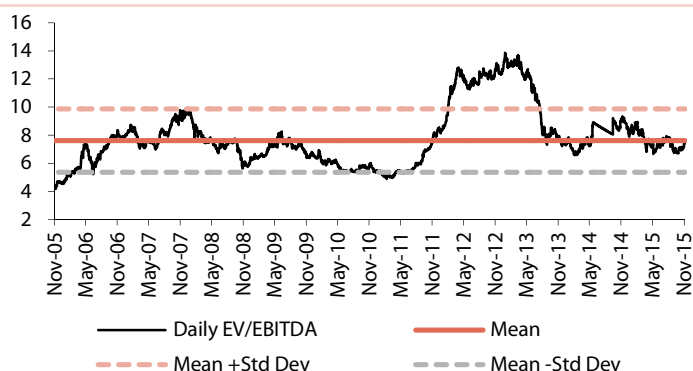
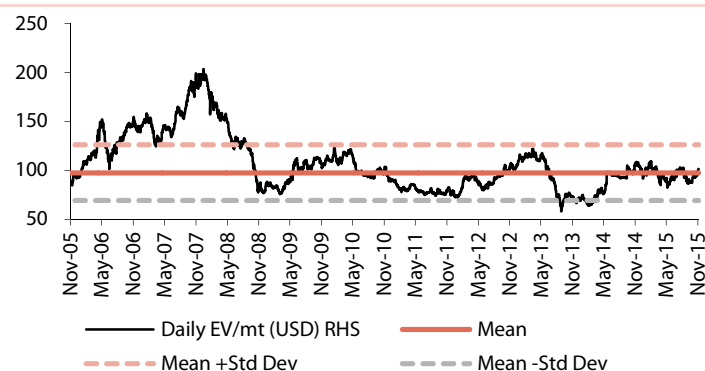


Exhibit 2: Rolling forward EV/MT chart



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company	Mkt Cap (Rs bn)	CAGR FY15-17E (%)			EBITDA margin (%)			RoCE (%)			RoE (%)			EV/EBITDA (x)			EV/MT (USD)		
		Rev.	EBITDA	PAT	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E	FY15	FY16E	FY17E
Ramco Cements	88.8	9.4	32.8	60.7	18.4	25.4	27.2	4.5	7.3	10.2	9.2	14.0	18.9	17.0	11.7	8.6	128	112	103
Orient Cement	33.4	22.2	28.9	16.4	19.8	17.1	22.1	10.3	6.8	11.8	18.1	11.2	19.1	10.0	14.9	8.8	95	81	87
JK Cements	45.4	16.2	33.7	54.5	12.7	13.6	16.8	5.6	5.6	9.1	7.4	4.9	16.7	16.2	13.5	8.8	77	78	73
JK Lakshmi	41.6	22.4	28.7	7.6	15.1	12.1	16.8	6.7	4.6	9.4	12.7	1.1	13.8	15.5	16.9	9.8	100	104	84

Source: Company, Centrum Research Estimates

Exhibit 4: Key Operational Assumptions

Particulars	FY13	FY14	FY15	FY16E	FY17E	FY18E
Installed Capacity (mn MT)	13.6	13.6	13.6	14.6	15.0	15.0
Sales Volume (mn MT)	8.4	8.6	7.7	7.1	8.1	9.1
YoY change (%)	10.7	2.8	(10.8)	(7.0)	13.0	13.0
(Rs/ MT trend)						
NSR (1)	4,427	4,145	4,617	4,945	5,257	5,519
YoY change (%)	6.4	(6.4)	11.4	7.1	6.3	5.0
Raw Materials (2)	634	802	887	852	886	922
Power & Fuel (3)	969	968	918	808	832	865
Freight costs (4)	920	960	1,038	986	1,025	1,066
Employee cost (5)	234	258	298	373	380	388
Other expense (6)	579	644	644	701	731	765
Total Opex (7)= sum(2 thru 6)	3,336	3,633	3,785	3,720	3,854	4,007
YoY change (%)	10.2	8.9	4.2	(1.7)	3.6	4.0
Ex plant NSR (1-4)	3,507	3,185	3,579	3,959	4,232	4,453
Input cost (2+3)	1,603	1,770	1,806	1,660	1,718	1,787
Variable cost (2+3+4)	2,523	2,731	2,843	2,646	2,743	2,853
Fixed cost (5+6)	813	902	942	1,074	1,111	1,153
EBITDA per MT (1-7)	1,091	512	832	1,226	1,403	1,513
YoY change (%)	(3.8)	(53.0)	62.3	47.3	14.4	7.9

Source: Company, Centrum Research Estimates

Exhibit 5: Quarterly financials trend

Y/E Mar (Rs mn)	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16
Net Sales	8,426	9,244	9,243	9,221	7,861	9,614	9,225	8,740
Total Expenditure	7,133	8,562	7,878	7,351	6,860	7,228	6,996	6,005
Raw Materials	1,581	1,795	1,917	1,635	1,604	1,650	1,830	1,119
Power and Fuel	1,787	2,260	1,978	1,852	1,572	1,638	1,457	1,358
Employee	582	559	583	534	567	602	621	682
Transport	1,930	2,301	2,143	2,027	1,812	1,976	1,830	1,556
Others	1,253	1,646	1,257	1,303	1,304	1,363	1,257	1,291
EBITDA	1,293	682	1,365	1,870	1,001	2,386	2,230	2,736
Depreciation	767	773	627	624	626	622	668	671
EBIT	527	(91)	738	1,246	374	1,765	1,562	2,064
Interest	464	495	500	480	485	473	488	453
Other Income	274	630	367	318	317	378	302	199
PBT	337	44	605	1,084	206	1,669	1,377	1,811
Taxes	81	(207)	243	187	(24)	798	402	543
Exceptional expense/ (income)	-	0	-	-	-	(63)	-	(120)
Reported PAT	256	250	363	897	230	934	975	1,387
Adjusted PAT	256	250	363	897	230	871	975	1,267
Adj EPS (Rs)	1.1	1.1	1.5	3.8	1.0	3.7	4.1	5.3
YoY Growth (%)								
Sales volume	2.3	1.7	(3.9)	(11.4)	(11.6)	(16.3)	(14.8)	(11.9)
Cement NSR	(4.3)	0.5	2.5	16.1	6.2	21.8	18.2	7.4
Revenue	(3.4)	(0.3)	(3.7)	1.9	(6.7)	4.0	(0.2)	(5.2)
EBITDA	(36.0)	(51.5)	(30.4)	58.5	(22.6)	249.9	63.3	46.3
PBT	(72.9)	(94.9)	(42.0)	806.0	(38.8)	3,711.0	127.4	67.1
Adj PAT	(69.6)	(61.0)	(47.3)	391.0	(10.3)	248.0	168.9	41.3
Margins (%)								
EBITDA	15.3	7.4	14.8	20.3	12.7	24.8	24.2	31.3
EBIT	6.2	(1.0)	8.0	13.5	4.8	18.4	16.9	23.6
PBT	4.0	0.5	6.6	11.8	2.6	17.4	14.9	20.7
Adj PAT	3.0	2.7	3.9	9.7	2.9	9.1	10.6	14.5
Operational Trend								
Cement & clinker Sales Vol (mn MT)	1.9	2.2	2.1	1.9	1.7	1.9	1.8	1.7
Trends (Rs/MT)								
NSR	4,404	4,294	4,344	4,680	4,678	5,231	5,134	5,028
Raw material cost	813	799	901	841	934	877	1,009	654
Power and fuel cost	919	1,006	930	953	915	871	804	794
Employee cost	300	249	274	275	330	320	342	398
Transport cost	993	1,024	1,007	1,043	1,055	1,051	1,010	909
Other expenses	616	733	563	642	727	684	653	701
Operating cost	3,641	3,810	3,675	3,755	3,962	3,804	3,818	3,457
EBITDA per MT	646	291	545	800	578	1,296	1,194	1,445
Wind power								
Sales (Rs mn)	94	29	266	370	61	27	138	354
YoY (%)	7.6	(50.9)	(28.6)	7.8	(34.4)	(7.3)	(47.9)	(4.5)
EBITDA (Rs mn)	38	28	206	315	7	(51)	65	263
YoY (%)	10.0	n/m	(40.4)	11.9	(81.5)	n/m	(68.4)	(16.5)

Source: Company, Centrum Research

Financials (Standalone)

Exhibit 6: Income Statement

Y/E Mar (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	36,321	35,939	35,859	42,985	50,882
Raw Materials	6,897	6,805	6,076	7,140	8,391
as % of sales	19.0	18.9	16.9	16.6	16.5
Power & Fuel	8,324	7,040	5,762	6,706	7,881
as % of sales	22.9	19.6	16.1	15.6	15.5
Staff Cost	2,218	2,287	2,658	3,064	3,532
as % of sales	6.1	6.4	7.4	7.1	6.9
EBITDA	5,116	6,622	9,097	11,677	14,150
EBITDA margin (%)	14.1	18.4	25.4	27.2	27.8
Depreciation	3,063	2,499	2,689	2,847	2,923
EBIT	2,053	4,123	6,408	8,830	11,226
Interest	1,881	1,938	1,770	1,200	850
Other income	1,371	1,379	1,044	1,083	1,246
PBT	1,543	3,564	5,682	8,712	11,622
Tax	313	1,204	1,741	2,614	3,487
Tax rate (%)	20.3	33.8	30.6	30.0	30.0
Adj PAT	1,230	2,361	3,942	6,099	8,136
EO items	146	63	120	-	-
Rep. PAT	1,377	2,424	4,062	6,099	8,136

Source: Company, Centrum Research Estimates

Exhibit 7: Key Ratios

Y/E Mar	FY14	FY15	FY16E	FY17E	FY18E
Growth Metrics (%)					
Net Sales	(4.1)	(1.1)	(0.2)	19.9	18.4
EBITDA	(46.9)	29.4	37.4	28.4	21.2
Adj PAT	(69.6)	91.9	67.0	54.7	33.4
Profitability Metrics (%)					
EBIT margin	5.7	11.5	17.9	20.5	22.1
PBT margin	4.7	10.1	16.2	20.3	22.8
Adj PAT margin	3.4	6.6	11.0	14.2	16.0
Return Ratios (%)					
RoE	5.1	9.2	14.0	18.9	21.3
RoCE	2.8	4.5	7.3	10.2	12.1
RoIC	5.0	6.4	9.4	12.8	15.4
Turnover ratios (No of days)					
Inventory period	68.9	52.9	54.0	52.0	50.0
Collection period	30.5	38.6	37.0	33.0	31.0
Creditors period	17.7	22.3	26.8	24.6	21.8
Net WC days (excluding cash)	81.0	63.8	34.1	35.2	34.7
Solvency Ratio (x)					
D/E	1.2	1.0	0.7	0.4	0.4
Net D/E	1.2	1.0	0.6	0.4	0.2
Interest coverage	1.1	2.1	3.6	7.4	13.2
Current ratio	2.2	1.8	1.6	1.6	1.9
Dividend					
DPS (Rs)	1.0	1.5	2.5	3.8	5.1
Dividend yield (%)	0.3	0.4	0.7	1.0	1.4
Dividend pay-out (%)	22.7	18.2	17.5	17.5	17.5
Per share (Rs)					
Basic EPS- reported	5.8	10.2	17.1	25.6	34.2
Basis EPS- adjusted	5.2	9.9	16.6	25.6	34.2
FDEPS- reported	5.8	10.2	17.1	25.6	34.2
FDEPS- adjusted	5.2	9.9	16.6	25.6	34.2
CEPS	18.0	20.4	27.8	37.6	46.4
BVPS	104.3	111.1	125.3	146.4	174.6
Valuations Metrics (x)					
P/E	72.2	37.6	22.5	14.6	10.9
Price/Cash earnings	20.7	18.3	13.4	9.9	8.0
Price/BV	3.6	3.4	3.0	2.5	2.1
EV/Sales	3.1	3.1	3.0	2.3	1.8
EV/EBITDA	22.3	17.0	11.7	8.6	6.6
EV/ton (USD \$)	129	128	112	103	95

Source: Company, Centrum Research Estimates

Exhibit 8: Balance Sheet

Y/E Mar (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
Sources of Funds:					
Share Capital	238	238	238	238	238
Reserves	24,583	26,214	29,587	34,620	41,334
Shareholders Fund	24,821	26,452	29,825	34,858	41,572
Debt	29,103	27,119	21,484	15,684	15,584
Net deferred tax	7,374	8,271	9,324	10,377	11,430
Total Liabilities	61,298	61,842	60,633	60,919	68,586
Application of Funds:					
Gross Block	66,838	72,056	75,856	77,656	80,456
Accumulated Depn	20,381	23,250	25,939	28,786	31,709
Net Fixed Assets	46,458	48,805	49,916	48,870	48,746
Capital WIP	3,495	2,575	500	1,500	5,000
Investments	2,832	3,557	3,557	3,557	3,557
Inventories	6,855	5,206	5,305	6,124	6,970
Sundry Debtors	3,040	3,802	3,635	3,886	4,322
Cash & Bank balances	448	620	3,313	2,847	6,440
Loans & Advances	5,455	6,083	4,912	5,535	6,273
Other Current Assets	105	53	53	53	53
Total Current Assets	15,902	15,764	17,219	18,445	24,058
Sundry creditors	1,759	2,198	2,637	2,901	3,046
Other liabilities & provisions	5,630	6,662	7,922	8,552	9,730
Total Current Liabilities	7,389	8,860	10,559	11,453	12,776
Net Current Assets	8,513	6,904	6,660	6,992	11,283
Total Assets	61,298	61,842	60,633	60,919	68,586

Source: Company, Centrum Research Estimates

Exhibit 9: Cash Flow

Y/E Mar (Rs mn)	FY14	FY15	FY16E	FY17E	FY18E
PBT & extraord. Items	1,543	3,564	5,682	8,712	11,622
Add: Depreciation	3,063	2,499	2,689	2,847	2,923
Add: Interest	1,781	1,917	1,770	1,200	850
Add: Others	(137)	143	(924)	(1,083)	(1,246)
Operating profit before WC changes	6,250	8,122	9,217	11,677	14,150
Trade & other receivables	(918)	176	(99)	(819)	(846)
Inventories	(908)	1,650	1,338	(874)	(1,173)
Trade payables	762	151	1,699	894	1,323
Net change - WC	(1,064)	1,977	2,938	(799)	(697)
Direct taxes	(398)	(683)	(688)	(1,561)	(2,434)
Net cash from operating activities	4,788	9,417	11,467	9,317	11,019
Capital expenditure	(5,568)	(4,705)	(1,725)	(2,800)	(6,300)
Others	156	(360)	1,044	1,083	1,246
Net Cash from investing activities	(5,412)	(5,065)	(680)	(1,717)	(5,054)
Net free cash flows	(624)	4,352	10,786	7,600	5,965
Issue of share capital	-	-	-	-	-
Debt change	2,588	(1,984)	(5,635)	(5,800)	(100)
Dividend paid	(279)	(279)	(689)	(1,066)	(1,422)
Interest paid	(1,781)	(1,917)	(1,770)	(1,200)	(850)
Net cash from financing activities	528	(4,179)	(8,093)	(8,066)	(2,372)
Net change in cash	(96)	173	2,693	(466)	3,594

Source: Company, Centrum Research Estimates

Appendix A

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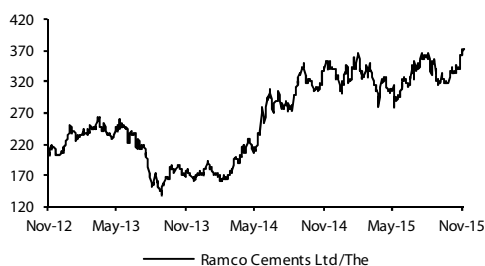
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Ramco Cements price chart



Source: Bloomberg, Centrum Research

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