

Moving from strength to strength

We maintain BUY on Ramco Cements (TRCL), with a higher TP of Rs580. Demand recovery in south, improving fuel mix (towards low cost petcoke), increasing plant efficiency and operating leverage gains drove TRCL's continued stellar quarterly performance in Q4FY16 – net sales/EBITDA/adjusted PAT growth of 2%/30%/135% YoY. We expect these triggers to continue to boost TRCL's industry leading performance. Further, TRCL has been deleveraging its balance sheet, which will continue as TRCL (with just 50% utilisation in FY16) does not need to incur major capex to capitalise demand recovery in south.

- **Sales volumes rise 11% YoY in Q4FY16:** Demand recovery in south led to TRCL reporting 11% YoY volume growth after seven consecutive quarters of decline. NSR is down 4% QoQ on account of price volatility witnessed during the quarter. This led to 7% YoY lower NSR on high base of Q4FY15.
- **Opex down 16% YoY boosting EBITDA/MT at Rs1,486:** Amid weak pricing, TRCL's operating costs reduced 16% YoY, benefitting from increase in share of low-cost petcoke, improvement in plant efficiencies and operating leverage gains. In Q4FY16, its fuel mix comprised 60%+ petcoke (vs 40% in Q3 and ~50% in FY16) and the rest was imported coal. Higher utilisation at Vizag grinding unit moderated lead distance. Subsequently, EBITDA/MT rose 15% YoY to Rs1,486 – TRCL's second highest quarterly EBITDA/MT performance ever. Strong volume and lower costs led to 30% EBITDA growth YoY (9% ahead of our estimate). Lower interest cost YoY (debt reduction), higher other income (profit from sales of investment) and lower tax rate further drove 135% PAT growth. Its cash conversion cycle stretched by 13 days to 82 days, largely on account of a 9-day increase in debtor days.
- **Debt reduction gaining pace without the need for lower capex:** TRCL spent Rs1.8bn towards maintenance capex and two CPPs of 6MW each (6MW in Jayantipuram and 6 MW in Alathiyur). These will be commissioned in FY17E. TRCL will incur another Rs1.5bn capex in FY17E towards augmenting Jayantipuram clinker/grinding capacity by 0.4mn MT/0.5mn MT each (by 1HFY17E, Rs1bn capex) and maintenance capex. Amid lower capex, TRCL paid off Rs5bn of its debt, improving Net D:E to 0.7x in FY16 from 1x in FY15 (its leverage is now lowest in the last 13 years). It will further use the strong cash flow to pay off its debt in FY17/18E, and we expect its Net D:E to moderate to 0.1x in FY18E. As TRCL operated at 50% utilisation in FY16, it can deliver strong volume growth for next several years (as demand recovers in south) without incurring any major capex.
- **Reiterate BUY with higher TP:** We raise our FY17/18E EBITDA estimates by 13%/10% YoY as we factor in further opex/MT reduction in FY17E (led by improving fuel mix, CPP commissioning) and improving demand visibility. We expect TRCL to continue delivering the highest EBITDA/MT in the cement industry, driving valuation re-rating for TRCL. Hence, we reiterate our BUY recommendation on the stock, valuing it at 9.5x its FY18E EBITDA, and leading to higher TP of Rs580 (vs earlier TP of Rs440 based on 8.5x its Dec'17E EBITDA). Key downside risks: poor monsoon, slump in recent demand recovery in south, disruption in pricing discipline and sharp spike in imported coal, petcoke and diesel prices will reduce cost benefits.

Y/E Mar (Rsmn)	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)	Q4FY16E	Variance %
Net Sales	9,788	9,614	1.8	8,119	20.6	10,036	(2.5)
Op. cost	6,695	7,228	(7.4)	5,673	18.0	7,198	(7.0)
EBITDA	3,093	2,386	29.6	2,446	26.5	2,838	9.0
EBITDA margin (%)	31.6	24.8	678bps	30.1	148 bps	28.3	332 bps
Depreciation	652	622	4.9	679	(4.0)	670	(2.7)
Interest	444	473	(6.1)	418	6.3	420	5.8
Other Income	389	378	2.9	109	256.2	170	128.6
PBT	2,386	1,669	42.9	1,458	63.7	1,918	24.4
Taxes paid	342	798	(57.1)	399	(14.1)	575	(40.5)
Adjusted PAT	2,043	871	134.5	1,059	93.0	1,343	52.2

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	95.3	27.8
FY15	35,939	(1.1)	6,622	18.4	2,361	91.9	9.9	9.2	4.5	49.7	21.3
FY16P	35,872	(0.2)	10,504	29.3	5,344	126.4	22.4	18.6	9.7	22.0	13.1
FY17E	38,882	8.4	12,399	31.9	6,535	22.3	27.4	19.4	10.9	17.9	10.6
FY18E	44,784	15.2	14,863	33.2	8,667	32.6	36.4	21.7	13.4	13.5	8.1

Source: Company, Centrum Research Estimates, Standalone Financials

Target Price	Rs580	Key Data	
CMP*	Rs493	Bloomberg Code	TRCL
Upside	18%	Curr Shares O/S (mn)	46.7
Previous Target	Rs440	Diluted Shares O/S(mn)	46.7
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	117.3/1.7
Price Performance (%)*		52 Wk H / L (Rs)	515.4/291
	1M	6M	1Yr
TRCL IN	5.2	31.2	67.5
NIFTY	(2.1)	(1.4)	(8.0)
		5 Year H / L (Rs)	515.4/76
		Daily Vol. (3M NSE Avg.)	295144.6

*as on 20 May 2016; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-16	Dec-15	Sep-15	Jun-15
Promoter	42.3	42.3	42.3	42.3
FIs	15.9	11.6	13.7	15.5
Dom. Inst.	19.0	23.5	24.5	23.0
Public & Others	22.9	22.6	19.5	19.2

Source: BSE, *as on 20 May 201

Operating trends - Cement

	Q4FY16	Q4FY15	YoY (%)	Q3FY16	QoQ (%)
Sales vol (mn MT)	2.1	1.9	10.9	1.6	28.2
Rs/MT trend					
NSR	4,865	5,231	(7.0)	5,051	(3.7)
Raw materials	766	877	(12.7)	859	(10.9)
Power & fuel	624	871	(28.3)	709	(12.0)
Freight	891	1,051	(15.2)	907	(1.8)
Employee	313	320	(2.3)	392	(20.2)
Other Expenses	592	684	(13.5)	567	4.4
Opex	3,186	3,804	(16.2)	3,435	(7.2)
EBITDA	1,486	1,296	14.7	1,536	(3.2)

Source: Company, Centrum Research

Earning Revisions summary

Particulars (Rs bn)	FY17E			FY18E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	38.9	37.7	3.3	44.8	43.9	1.9
EBITDA	12.4	10.9	13.3	14.9	13.5	9.9
Ebitda margin (%)	31.9	29.1		33.2	30.8	
Adj PAT	6.5	5.5	19.8	8.7	7.5	15.8

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY17E			FY18E		
	Centrum	BGG	Var (%)	Centrum	BGG	Var (%)
Net Sales	38.9	40.2	(3.3)	44.8	45.0	(0.5)
EBITDA	12.4	11.5	7.8	14.9	13.3	11.7
PAT	6.5	5.5	18.8	8.7	6.9	25.6

Bloomberg Consensus*				Target Price (Rs)	Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)			
16	1	6	481	580	20.6	

*as on 20 May 2016; Source: Bloomberg, Centrum Research Estimates

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Valuation & Key assumptions

Exhibit 1: 1 Yr forward EV/EBITDA chart

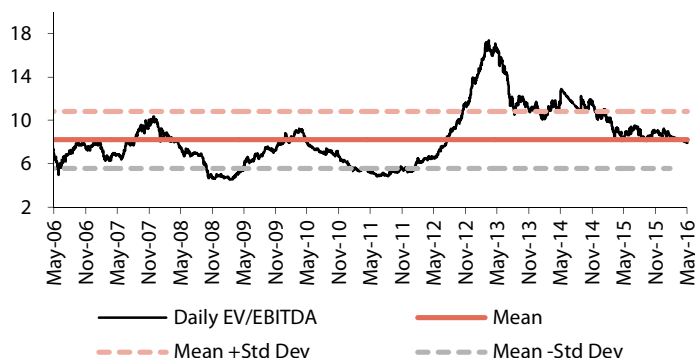
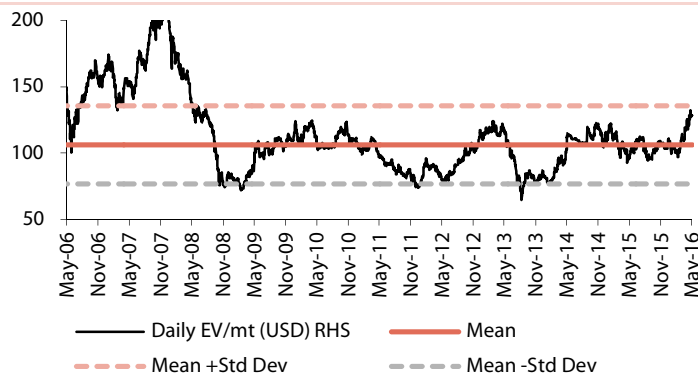


Exhibit 2: 1 Yr forward EV/MT chart



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	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Ramco Cements	117.3	11.7	18.9	27.4	29.3	31.9	33.2	9.7	10.9	13.4	18.6	19.4	21.7	13.1	10.6	8.1	145	134	125
Orient Cement	31.8	28.2	75.1	107.6	12.1	18.6	22.7	4.8	8.0	13.7	6.3	9.4	22.3	21.9	12.2	7.2	77	84	78
JK Lakshmi	41.2	16.2	61.2	340.4	10.3	15.5	19.8	(0.5)	6.3	11.5	1.3	7.5	21.1	21.1	12.8	7.8	105	89	81
JK Cements	41.0	19.1	43.3	239.5	12.8	16.2	18.5	4.3	8.6	12.5	2.5	14.4	24.3	13.7	9.2	6.6	74	72	70

Source: Company, Centrum Research Estimates JK Cements' FY16 is estimates

Exhibit 4: Key Operational Assumptions

Particulars	FY13	FY14	FY15	FY16	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	7.2	7.6	8.4
YoY change (%)	10.7	2.8	(10.8)	(5.6)	5.0	10.0
(Rs/ MT trend)						
NSR (1)	4,427	4,145	4,617	4,896	5,056	5,302
YoY change (%)	6.4	(6.4)	11.4	6.0	3.3	4.9
Raw Materials (2)	634	802	887	821	837	871
Power & Fuel (3)	969	968	918	728	670	690
Freight costs (4)	920	960	1,038	928	947	985
Employee cost (5)	234	258	298	358	369	369
Other expense (6)	579	644	644	647	638	643
Total Opex (7)= sum(2 thru 6)	3,336	3,633	3,785	3,482	3,460	3,557
YoY change (%)	10.2	8.9	4.2	(8.0)	(0.6)	2.8
Ex plant NSR (1-4)	3,507	3,185	3,579	3,967	4,109	4,317
Input cost (2+3)	1,603	1,770	1,806	1,549	1,507	1,561
Variable cost (2+3+4)	2,523	2,731	2,843	2,477	2,454	2,545
Fixed cost (5+6)	813	902	942	1,005	1,006	1,012
EBITDA per MT (1-7)	1,091	512	832	1,414	1,595	1,745
YoY change (%)	(3.8)	(53.0)	62.3	69.9	12.8	9.4

Source: Company, Centrum Research Estimates

Exhibit 5: Quarterly financials trend

Y/E Mar (Rs mn)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Net Sales	9,243	9,221	7,861	9,614	9,225	8,740	8,119	9,788
Total Expenditure	7,878	7,351	6,860	7,228	6,996	6,005	5,673	6,695
Raw Materials	1,917	1,635	1,604	1,650	1,830	1,119	1,398	1,596
Power and Fuel	1,978	1,852	1,572	1,638	1,457	1,358	1,153	1,302
Employee	583	534	567	602	621	682	638	653
Transport	2,143	2,027	1,812	1,976	1,830	1,556	1,475	1,857
Others	1,257	1,303	1,304	1,363	1,257	1,291	1,009	1,287
EBITDA	1,365	1,870	1,001	2,386	2,230	2,736	2,446	3,093
Depreciation	627	624	626	622	668	671	679	652
EBIT	738	1,246	374	1,765	1,562	2,064	1,767	2,441
Interest	500	480	485	473	488	453	418	444
Other Income	367	318	317	378	302	199	109	389
PBT	605	1,084	206	1,669	1,377	1,811	1,458	2,386
Taxes	243	187	(24)	798	402	543	399	342
Exceptional expense/ (income)	-	-	-	(63)	-	(120)	(119)	-
Reported PAT	363	897	230	934	975	1,387	1,177	2,043
Adjusted PAT	363	897	230	871	975	1,267	1,059	2,043
Adj EPS (Rs)	1.5	3.8	1.0	3.7	4.1	5.3	4.4	8.6
YoY Growth (%)								
Sales volume	(3.9)	(11.4)	(11.6)	(16.3)	(14.8)	(11.9)	(5.4)	10.9
Cement NSR	2.5	16.1	6.2	21.8	18.2	7.4	8.0	(7.0)
Revenue	(3.7)	1.9	(6.7)	4.0	(0.2)	(5.2)	3.3	1.8
EBITDA	(30.4)	58.5	(22.6)	249.9	63.3	46.3	144.4	29.6
PBT	(42.0)	806.0	(38.8)	3,711.0	127.4	67.1	607.2	42.9
Adj PAT	(47.3)	391.0	(10.3)	248.0	168.9	41.3	361.1	134.5
Margins (%)								
EBITDA	14.8	20.3	12.7	24.8	24.2	31.3	30.1	31.6
EBIT	8.0	13.5	4.8	18.4	16.9	23.6	21.8	24.9
PBT	6.6	11.8	2.6	17.4	14.9	20.7	18.0	24.4
Adj PAT	3.9	9.7	2.9	9.1	10.6	14.5	13.0	20.9
Operational Trend								
Cement & clinker Sales Vol (mn MT)	2.1	1.9	1.7	1.9	1.8	1.7	1.6	2.1
Trends (Rs/MT)								
NSR	4,344	4,680	4,678	5,231	5,134	5,028	5,051	4,865
Raw material cost	901	841	934	877	1,009	654	859	766
Power and fuel cost	930	953	915	871	804	794	709	624
Employee cost	274	275	330	320	342	398	392	313
Transport cost	1,007	1,043	1,055	1,051	1,010	909	907	891
Other expenses	563	642	727	684	653	701	567	592
Operating cost	3,675	3,755	3,962	3,804	3,818	3,457	3,435	3,186
EBITDA per MT	545	800	578	1,296	1,194	1,445	1,536	1,486
Wind power								
Sales (Rs mn)	266	370	61	27	138	354	37	47
YoY (%)	(28.6)	7.8	(34.4)	(7.3)	(47.9)	(4.5)	(39.9)	76.7
EBITDA (Rs mn)	206	315	7	(51)	65	263	(51)	(6)
YoY (%)	(40.4)	11.9	(81.5)	n/m	(68.4)	(16.5)	n/m	n/m

Source: Company, Centrum Research

Financials (Standalone)

Exhibit 6: Income Statement

Y/E Mar (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	36,321	35,939	35,872	38,882	44,784
Raw Materials	6,897	6,805	5,943	6,365	7,281
as % of sales	19.0	18.9	16.6	16.4	16.3
Power & Fuel	8,324	7,040	5,270	5,091	5,768
as % of sales	22.9	19.6	14.7	13.1	12.9
Staff Cost	2,218	2,287	2,592	2,804	3,084
as % of sales	6.1	6.4	7.2	7.2	6.9
EBITDA	5,116	6,622	10,504	12,399	14,863
EBITDA margin (%)	14.1	18.4	29.3	31.9	33.2
Depreciation	3,063	2,499	2,670	2,847	2,923
EBIT	2,053	4,123	7,834	9,552	11,939
Interest	1,881	1,938	1,802	1,180	800
Other income	1,371	1,379	997	964	1,242
PBT	1,543	3,564	7,030	9,336	12,381
Tax	313	1,204	1,686	2,801	3,714
Tax rate (%)	20.3	33.8	24.0	30.0	30.0
Adj PAT	1,230	2,361	5,344	6,535	8,667
EO items	146	63	238	-	-
Rep. PAT	1,377	2,424	5,582	6,535	8,667

Source: Company, Centrum Research Estimates

Exhibit 7: Key Ratios

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Growth Metrics (%)					
Net Sales	(4.1)	(1.1)	(0.2)	8.4	15.2
EBITDA	(46.9)	29.4	58.6	18.0	19.9
Adj PAT	(69.6)	91.9	126.4	22.3	32.6
Profitability Metrics (%)					
EBIT margin	5.7	11.5	21.8	24.6	26.7
PBT margin	4.7	10.1	20.3	24.0	27.6
Adj PAT margin	3.4	6.6	14.9	16.8	19.4
Return Ratios (%)					
RoE	5.1	9.2	18.6	19.4	21.7
RoCE	2.8	4.5	9.7	10.9	13.4
RoIC	5.0	6.4	11.8	13.1	17.0
Turnover ratios (No of days)					
Inventory period	68.9	52.9	55.9	54.0	52.0
Collection period	30.5	38.6	47.7	45.0	40.0
Creditors period	17.7	22.3	21.3	21.6	21.6
Net WC days (excluding cash)	81.0	63.8	65.4	58.7	47.1
Solvency Ratio (x)					
D/E	1.2	1.0	0.7	0.4	0.2
Net D/E	1.2	1.0	0.7	0.4	0.1
Interest coverage	1.1	2.1	4.3	8.1	14.9
Current ratio	2.2	1.8	1.8	1.8	2.1
Dividend					
DPS (Rs)	1.0	1.5	3.0	4.1	5.5
Dividend yield (%)	0.2	0.3	0.6	0.8	1.1
Dividend pay-out (%)	22.7	18.2	15.6	17.5	17.5
Per share (Rs)					
Basic EPS- reported	5.8	10.2	23.4	27.4	36.4
Basis EPS- adjusted	5.2	9.9	22.4	27.4	36.4
FDEPS- reported	5.8	10.2	23.4	27.4	36.4
FDEPS- adjusted	5.2	9.9	22.4	27.4	36.4
CEPS	18.0	20.4	33.7	39.4	48.7
BVPS	104.3	111.1	129.9	152.5	182.6
Valuations Metrics (x)					
P/E	95.3	49.7	22.0	17.9	13.5
Price/Cash earnings	27.3	24.1	14.6	12.5	10.1
Price/BV	4.7	4.4	3.8	3.2	2.7
EV/Sales	3.9	3.9	3.8	3.4	2.7
EV/EBITDA	27.8	21.3	13.1	10.6	8.1
EV/ton (USD \$)	161	160	145	134	125

Source: Company, Centrum Research Estimates

Exhibit 8: Balance Sheet

Y/E Mar (Rs mn)	FY14	FY15	FY16P	FY17E	FY18E
Sources of Funds:					
Share Capital	238	238	238	238	238
Reserves	24,583	26,214	30,689	36,082	43,234
Shareholders Fund	24,821	26,452	30,927	36,321	43,473
Debt	29,103	27,119	22,056	15,755	10,655
Net deferred tax	7,374	8,271	8,521	8,902	9,283
Total Liabilities	61,298	61,842	61,504	60,977	63,410
Application of Funds:					
Gross Block	66,838	72,056	75,856	77,656	78,456
Accumulated Depn	20,381	23,250	25,920	28,767	31,691
Net Fixed Assets	46,458	48,805	49,935	48,888	46,765
Capital WIP	3,495	2,575	575	400	500
Investments	2,832	3,557	3,652	3,652	3,652
Inventories	6,855	5,206	5,490	5,752	6,380
Sundry Debtors	3,040	3,802	4,685	4,794	4,908
Cash & Bank balances	448	620	909	1,788	6,708
Loans & Advances	5,455	6,083	4,945	5,220	5,521
Other Current Assets	105	53	53	53	53
Total Current Assets	15,902	15,764	16,082	17,608	23,571
Sundry creditors	1,759	2,198	2,091	2,300	2,645
Other liabilities & provisions	5,630	6,662	6,650	7,271	8,433
Total Current Liabilities	7,389	8,860	8,741	9,571	11,078
Net Current Assets	8,513	6,904	7,341	8,036	12,493
Total Assets	61,298	61,842	61,504	60,977	63,410

Source: Company, Centrum Research Estimates

Exhibit 9: Cash Flow

Y/E Mar (Rs mn)	FY14	FY15	FY16P	FY17E	FY18E
PBT & extraord. Items	1,543	3,564	7,030	9,336	12,381
Add: Depreciation	3,063	2,499	2,670	2,847	2,923
Add: Interest	1,781	1,917	1,802	1,180	800
Add: Others	(137)	143	(1,165)	(964)	(1,242)
Operating profit before WC changes	6,250	8,122	10,336	12,399	14,863
Trade & other receivables	(918)	176	(284)	(262)	(628)
Inventories	(908)	1,650	256	(384)	(416)
Trade payables	762	151	(119)	830	1,507
Net change - WC	(1,064)	1,977	(147)	184	463
Direct taxes	(398)	(683)	(1,305)	(2,420)	(3,333)
Net cash from operating activities	4,788	9,417	8,884	10,163	11,993
Capital expenditure	(5,568)	(4,705)	(1,800)	(1,625)	(900)
Others	156	(360)	902	964	1,242
Net cash from investing activities	(5,412)	(5,065)	(898)	(661)	342
Net free cash flows	(624)	4,352	7,986	9,502	12,334
Issue of share capital	-	-	-	-	-
Debt change	2,588	(1,984)	(5,063)	(6,301)	(5,100)
Dividend paid	(279)	(279)	(832)	(1,142)	(1,514)
Interest paid	(1,781)	(1,917)	(1,802)	(1,180)	(800)
Net cash from financing activities	528	(4,179)	(7,697)	(8,623)	(7,414)
Net change in cash	(96)	173	289	879	4,920

Source: Company, Centrum Research Estimates

Appendix A

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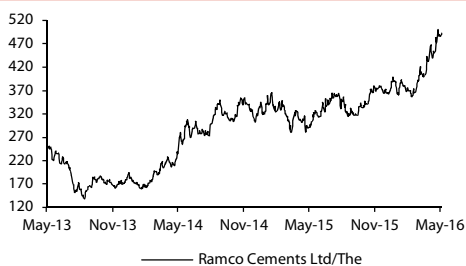
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Ramco Cements price chart



Source: Bloomberg, Centrum Research

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