

Robust growth, but input cost inflation remains a concern

During Q4FY18, TRCL delivered robust, industry leading 20% volume growth, which bolstered operating leverage gains. However, weak pricing in south and elevated energy and freight cost led to a modest 1% EBITDA growth and PAT fell 5% YoY. We expect robust demand in east and AP-T markets alongwith recovery in TN/Kerala markets to help sustain 10% volume CAGR during FY18-20E and also aid margin expansion. Thus, TRCL should sustain its superior profitability and also fund its east expansion through internal accruals. However, in our view, TRCL's superior profitability is captured in its current valuations. Thus, we downgrade to HOLD with a revised TP of Rs770.

- Q4FY18 - Strong volume growth; muted NSR increase:** During Q4FY18, TRCL's volume growth accelerated to 20% YoY, driven by sustenance of robust growth across eastern region and in AP-T markets and as demand started to recover in Tamil Nadu/Kerala markets (on low base of last year). Thus in FY18, TRCL delivered 11% volume growth, as it registered 30% growth in its sales in eastern market and 5% rise in its south market sales. TRCL outpaced the regional demand growth rates of ~19% in east and 3% in south. During FY18, while strong demand in the eastern region aided price improvement in the region, demand contraction in Tamil Nadu has dragged down south pricing. Thus, TRCL's blended NSR fell 1% QoQ and rose 2% YoY (mostly on account of FOR based reporting, leading to both higher NSR and freight cost.
- Sharp increase in fuel and diesel prices dent margins:** TRCL's opex rose 8% YoY in Q4FY18 as well as during FY18. This is largely driven by continued rise across pet-coke/imported coal/ diesel prices. TRCL has been able to reduce cost volatility through better inventory management. Thus, input cost per MT rose 17% YoY (flat QoQ) in Q4FY18 and 13% YoY in FY18. Surge in diesel prices and FOR based reporting drove 18%13% YoY rise in freight cost (per MT) in Q4FY18/FY18. TRCL maintained strict control on overheads, which drove operating leverage gains on strong volume offtake. Thus, unitary fixed costs fell 13%/3% YoY in Q4FY18/FY18. Muted pricing amid sharp input cost inflation, led to unitary EBITDA fall by 16%/17% YoY in Q4FY18/FY18 to Rs1005/Rs1128/MT respectively. TRCL however reduced its debtor days by ~15days YoY which improved its cash conversion cycle to 60days vs 80days YoY. TRCL also reduced debt on books by ~22% YoY. This along with interest rate reduction almost halved interest expense during Q4FY18/FY18.
- Capex to expand its footprint in east:** TRCL during Q1FY18 results had announced a Rs11bn capex to commission three grinding units (1 mn MT each) across Kolkata, Cuttak and Vizag to capitalise on the robust demand visibility in the eastern and AP-T markets. TRCL currently announced brownfield clinker expansion in AP by 1.5mn MT (capex of Rs6.8bn). These plants are all expected to become operational during H2FY20/H1FY21. We estimate strong internal cash generation should fund these expansions and TRCL's net D:E should remain sub-zero going forward.
- Superior profitability factored in the current valuations:** We trim our FY19/20 EBITDA estimate by 7%/3%, owing to continued rise in energy cost and on account of delays in price recovery in TN/Kerala markets (~50% of TRCL sales). We estimate TRCL to deliver 19% EBITDA CAGR during FY18-20E. Thus, its unitary EBITDA and profitability metrics should remain among the best in the industry. We have been bullish on the stock for past three years and it has delivered ~40% price CAGR, driven by both profit improvement and valuation rerating. However, we believe its superior business outlook is reflected in the current valuations - 15.3x/12.7x its FY19/20E EBITDA and in the ~USD190/MT of replacement value. We continue to value the stock at 12x its FY20 EBITDA, leading to revised TP of Rs770. Amid no upside to our TP, we downgrade to HOLD.

Y/E Mar (Rsmn)	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Q4FY18E	Variance %
Net Sales	12,548	10,262	22.3	10,564	18.8	11,691	7.3
Op. cost	9,826	7,554	30.1	8,211	19.7	9,110	7.9
EBITDA	2,722	2,708	0.5	2,353	15.7	2,580	5.5
EBITDA margin (%)	21.7	26.4	(470)bps	22.3	(58)bps	22.1	(38)bps
Depreciation	754	854	(11.6)	730	3.4	730	3.4
Interest	105	201	(48.0)	160	(34.7)	155	(32.5)
Other Income	190	65	193.8	52	268.4	60	216.8
PBT	2,053	1,718	19.5	1,515	35.6	1,756	16.9
Taxes paid	781	373	109.2	336	132.5	439	77.8
Adjusted PAT	1,272	1,345	(5.4)	1,179	7.9	1,317	(3.4)

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)
FY16	35,733	(2.0)	10,716	30.0	5,184	120.6	21.8	17.9	9.7	16.0	9.6
FY17	39,495	10.5	11,947	30.2	6,683	28.9	28.1	19.6	11.0	20.4	12.5
FY18	44,064	11.6	10,994	25.0	5,557	(16.9)	23.6	14.3	9.4	30.6	16.3
FY19E	50,301	14.2	12,936	25.7	7,088	27.6	30.1	16.3	11.8	26.7	15.3
FY20E	57,749	14.8	15,441	26.7	9,049	27.7	38.4	17.9	13.5	20.9	12.7

Source: Company, Centrum Research Estimates, Standalone Financials

In the interest of timeliness, this document is not edited

Centrum Equity Research is available on Bloomberg, Thomson Reuters and FactSet

Target Price	Rs770	Key Data	
CMP*	Rs795	Bloomberg Code	TRCL
Downside	3%	Curr Shares O/S (mn)	235.6
Previous Target	Rs800	Diluted Shares O/S(mn)	235.6
Previous Rating	Buy	Mkt Cap (Rsbn/USDbn)	187.3/2.7
Price Performance (%)*		52 Wk H / L (Rs)	879.1/647.6
		5 Year H / L (Rs)	879.1/135.2
TRCL IN	(7.1)	Daily Vol. (3M NSE Avg.)	329668
NIFTY	(1.5)		

*as on 23 May 2018; Source: Bloomberg, Centrum Research

Shareholding pattern (%)*

	Mar-18	Dec-17	Sep-17	Jun-17
Promoter	42.8	42.8	42.8	42.7
FII's	13.1	13.9	14.8	14.5
Dom. Inst.	20.1	18.8	17.2	18.5
Public & Others	24.0	24.5	25.2	24.3

Source: BSE, *as on 23 May 2018

Operating trends - Cement

	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Sales vol (mn MT)	2.7	2.3	20.2	2.3	20.3
Rs/MT trend					
NSR	4,582	4,492	2.0	4,620	(0.8)
Raw materials	845	791	6.9	884	(4.4)
Power & fuel	795	608	30.7	751	5.9
Freight	1,064	901	18.1	995	7.0
Employee	270	295	(8.7)	334	(19.2)
Other Expenses	602	705	(14.6)	626	(3.8)
Opex	3,577	3,300	8.4	3,590	(0.4)
EBITDA	1,005	1,192	(15.7)	1,030	(2.4)

Source: Company, Centrum Research

Earning Revisions summary

Particulars (Rs bn)	FY19E			FY20E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	50.3	50.0	0.5	57.7	56.4	2.4
EBITDA	12.9	13.9	(6.7)	15.4	16.0	(3.4)
EBITDA margin (%)	25.7	27.7		26.7	28.3	
Adj PAT	7.1	8.1	(12.3)	9.0	9.4	(3.7)

Source: Centrum Research Estimates

Centrum vs. Bloomberg Consensus*

Particulars (Rs bn)	FY19E			FY20E		
	Centrum	BGG	Var (%)	Centrum	BGG	Var (%)
Net Sales	50.3	48.8	3.0	57.7	55.5	4.1
EBITDA	12.9	12.7	2.2	15.4	14.7	5.3
PAT	7.1	7.4	(3.7)	9.0	8.9	1.7

Bloomberg Consensus*				Centrum Target Price (Rs)	Variance (%)
BUY	SELL	HOLD	Target Price (Rs)		
17	2	8	812	770	(5.2)

*as on 23 May 2018; Source: Bloomberg, Centrum Research Estimates

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Valuation & Key assumptions

Exhibit 1: 1 year forward EV/EBITDA chart

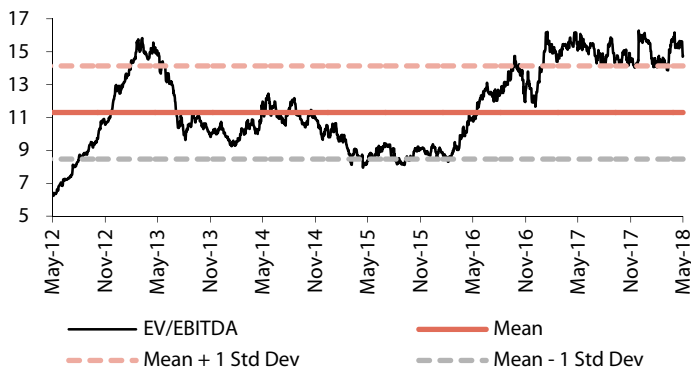
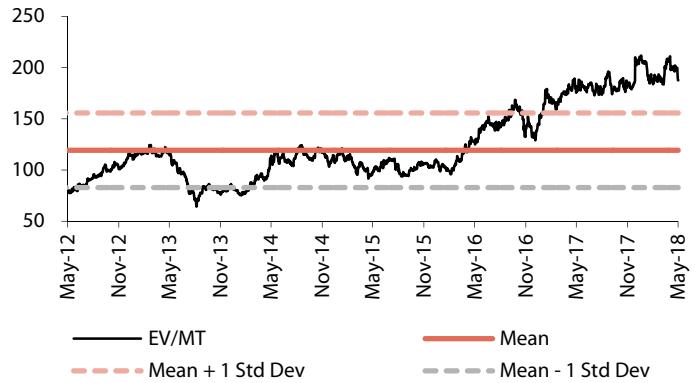


Exhibit 2: 1 year forward EV/MT chart



Source: Bloomberg, Company, Centrum Research Estimates

Source: Bloomberg, Company, Centrum Research Estimates

Exhibit 3: Comparative Valuations

Company	Mkt Cap (Rs bn)	CAGR FY18-20E (%)			EBITDA margin (%)			RoCE (%)			RoE (%)			EV/EBITDA (x)			EV/MT (USD)		
		Rev.	EBITDA	PAT	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Ramco Cements	187.3	14.5	18.5	27.6	25.0	25.7	26.7	9.4	11.8	13.5	14.3	16.3	17.9	16.3	15.3	12.7	184	204	178
Orient Cement	24.6	33.6	49.5	98.5	13.7	14.9	17.2	5.2	6.0	7.9	4.4	6.6	9.5	13.7	12.3	7.5	80	80	77
JK Lakshmi	45.1	8.2	24.8	77.8	12.1	13.8	16.1	6.3	8.2	9.4	6.0	11.0	15.4	16.4	11.7	9.5	95	85	82
JK Cements	65.7	10.8	18.4	28.9	16.2	17.2	18.6	9.7	11.1	11.8	16.6	19.6	19.9	11.9	9.7	8.5	101	94	86
Shree Cement	558.9	18.0	22.3	9.0	24.8	25.9	26.6	13.7	12.5	13.1	16.2	14.3	14.9	24.9	17.5	14.3	263	206	202

Source: Company, Centrum Research Estimates

Exhibit 4: Key Operational Assumptions

Particulars	FY15	FY16	FY17	FY18	FY19E	FY20E
Installed Capacity (mn MT)	13.6	14.6	15.0	15.0	15.0	17.0
Sales Volume (mn MT)	7.7	7.2	8.4	9.3	10.2	11.3
YoY change (%)	(10.8)	(5.7)	15.8	11.2	10.0	10.0
Utilisation (%)	56.4	49.6	55.9	62.1	68.3	66.3
(Rs/ MT trend)						
NSR	4,684	4,880	4,629	4,660	4,841	5,058
YoY change (%)	11.4	4.2	(5.1)	0.7	3.9	4.5
Raw Materials	887	814	800	806	814	830
Power & Fuel	918	729	617	783	830	855
Freight costs	1,038	929	881	997	1,046	1,078
Employee cost	298	358	332	326	326	338
Other expense	658	606	640	620	614	638
Total Opex	3,800	3,435	3,271	3,532	3,630	3,739
YoY change (%)	5.3	(9.6)	(4.8)	8.0	2.8	3.0
EBITDA per MT	884	1,445	1,359	1,128	1,211	1,319

Source: Company, Centrum Research Estimates

Exhibit 5: Quarterly financials trend

Y/E Mar (Rs mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Sales	9,720	10,157	9,433	10,262	10,288	10,664	10,564	12,548
Total Expenditure	6,679	6,631	6,685	7,554	7,384	7,726	8,211	9,826
Raw Materials	1,674	1,580	1,649	1,800	1,591	1,668	2,011	2,313
Power and Fuel	1,293	1,203	1,283	1,385	1,681	1,725	1,708	2,176
Employee	707	700	698	673	749	793	759	738
Transport	1,772	1,788	1,771	2,052	1,999	2,107	2,262	2,912
Others	1,233	1,360	1,283	1,644	1,363	1,431	1,471	1,687
EBITDA	3,041	3,526	2,748	2,708	2,904	2,939	2,353	2,722
Depreciation	663	667	661	854	720	718	730	754
EBIT	2,378	2,859	2,087	1,854	2,184	2,221	1,623	1,968
Interest	291	282	261	201	155	173	160	105
Other Income	19	60	215	65	52	72	52	190
PBT	2,105	2,637	2,040	1,718	2,082	2,120	1,515	2,053
Taxes	547	567	522	373	524	512	336	781
Exceptional expense/ (income)	-	(4)	2	-	(2)	(80)	(49)	187
Reported PAT	1,558	2,074	1,517	1,345	1,560	1,689	1,227	1,086
Adjusted PAT	1,558	2,070	1,519	1,345	1,558	1,609	1,179	1,272
Adj EPS (Rs)	6.5	8.7	6.4	5.7	6.6	6.8	5.0	5.4
YoY Growth (%)								
Sales volume	14.0	18.4	21.9	9.8	4.1	6.3	14.7	20.2
Cement NSR	(10.7)	(3.9)	(5.5)	(6.5)	1.2	(0.2)	(2.2)	2.0
Revenue	2.6	14.5	15.2	2.9	5.8	5.0	12.0	22.3
EBITDA	20.0	19.7	8.1	(17.4)	(4.5)	(16.6)	(14.4)	0.5
PBT	51.1	43.1	39.5	(28.0)	(1.1)	(19.6)	(25.8)	19.5
Adj PAT	57.4	59.4	42.8	(34.2)	-	(22.3)	(22.4)	(5.4)
Margins (%)								
EBITDA	31.3	34.7	29.1	26.4	28.2	27.6	22.3	21.7
EBIT	24.5	28.1	22.1	18.1	21.2	20.8	15.4	15.7
PBT	21.7	26.0	21.6	16.7	20.2	19.9	14.3	16.4
Adj PAT	16.0	20.4	16.1	13.1	15.1	15.1	11.2	10.1
Operational Trend - Cement								
Sales Vol (mn MT)	2.1	2.0	2.0	2.3	2.2	2.2	2.3	2.7
Trends (Rs/MT)								
NSR	4,608	4,806	4,725	4,492	4,665	4,797	4,620	4,582
Raw material cost	810	780	832	791	740	775	884	845
Power and fuel cost	626	594	647	608	782	802	751	795
Employee cost	342	346	352	295	349	369	334	270
Transport cost	858	883	894	901	930	979	995	1,064
Other expenses	577	654	627	705	615	643	626	602
Operating cost	3,213	3,257	3,352	3,300	3,416	3,568	3,590	3,577
EBITDA per MT	1,395	1,549	1,373	1,192	1,249	1,229	1,030	1,005

Source: Company, Centrum Research

Financials (Standalone)

Exhibit 6: Income Statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	35,733	39,495	44,064	50,301	57,748
Materials cost	5,888	7,164	7,645	8,340	9,358
% of revenues	16.5	18.1	17.3	16.6	16.2
Employee Cost	2,587	2,777	3,040	3,344	3,808
% of revenues	7.2	7.0	6.9	6.6	6.6
Others	16,542	17,608	22,385	25,680	29,142
% of revenues	46.3	44.6	50.8	51.1	50.5
EBITDA	10,716	11,947	10,994	12,936	15,441
EBITDA Margins (%)	30.0	30.2	25.0	25.7	26.7
Depreciation & Amortisation	3,048	2,655	2,922	2,956	3,138
EBIT	7,668	9,291	8,072	9,979	12,302
Interest expenses	1,819	1,035	592	400	350
PBT from operations	5,849	8,256	7,480	9,579	11,952
Other Income	884	435	366	403	443
Exceptional loss/(gain)	238	20	-	-	-
PBT	6,972	8,712	7,847	9,982	12,396
Taxes	1,550	2,009	2,290	2,895	3,347
Effective tax rate (%)	22.2	23.1	29.2	29.0	27.0
Net Profit	5,422	6,703	5,557	7,088	9,049
Reported Net Profit	5,422	6,703	5,557	7,088	9,049
Adj Net Profit	5,184	6,683	5,557	7,088	9,049

Source: Company, Centrum Research Estimates

Exhibit 7: Key Ratios

Y/E March	FY16	FY17	FY18P	FY19E	FY20E
Growth ratios (%)					
Revenues	(2.0)	10.5	11.6	14.2	14.8
EBITDA	50.2	11.5	(8.0)	17.7	19.4
Adj Net Profit	120.6	28.9	(16.9)	27.6	27.7
Margin ratios (%)					
EBITDA Margin	30.0	30.2	25.0	25.7	26.7
PBT from operations Margin	16.4	20.9	17.0	19.0	20.7
Adj PAT Margin	14.5	16.9	12.6	14.1	15.7
Return Ratios (%)					
RoE	17.9	19.6	14.3	16.3	17.9
RoCE	9.7	11.0	9.4	11.8	13.5
RoIC	8.9	10.7	9.2	11.7	13.4
Turnover Ratios (days)					
Gross block turnover (x)	0.5	0.5	0.5	0.6	0.6
Debtors	48	51	37	42	43
Inventory	56	53	46	47	45
Creditors	22	24	22	23	23
Cash conversion cycle	82	81	61	66	65
Solvency Ratio					
Net debt-equity	0.6	0.3	0.2	0.2	0.1
Debt-equity	0.7	0.4	0.3	0.2	0.2
Interest coverage ratio	4.2	9.0	13.6	24.9	35.1
Gross debt/EBITDA	2.0	1.2	1.0	0.9	0.6
Current Ratio	1.5	1.4	1.2	1.3	1.3
Per Share (Rs)					
Adjusted EPS	21.8	28.1	23.6	30.1	38.4
BVPS	129.9	157.1	171.6	198.2	231.9
CEPS	34.6	39.2	36.0	42.6	51.7
DPS	3.0	3.0	3.0	3.0	4.0
Dividend payout %	15.9	12.8	14.8	11.6	12.1
Valuations (x)(Avg Mkt Cap)					
P/E (adjusted)	16.0	20.4	30.6	26.7	20.9
P/BV	2.7	3.6	4.2	4.1	3.5
EV/EBITDA	9.6	12.5	16.3	15.3	12.7
EV/ton (USD \$)	109	153	184	204	178
Dividend yield %	0.9	0.5	0.4	0.4	0.5
5 Yr Avg AOCF/EV yield %	6.2	4.7	4.4	4.6	5.1

Source: Company, Centrum Research Estimates

Exhibit 8: Balance Sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	30,935	37,415	40,422	46,686	54,637
Reserves & surplus	21,230	14,248	11,132	11,132	9,469
Total Shareholders' Fund	7,155	7,281	7,597	7,890	8,183
Total Debt	59,320	58,945	59,150	65,708	72,289
Def tax liab. (net)	77,670	81,213	85,384	87,384	96,034
Total Liabilities	26,310	29,155	32,154	35,110	38,248
Gross Block	51,360	52,059	53,230	52,274	57,785
Less:- Accumulated Depreciation	1,468	974	1,500	7,500	8,500
Net Block	52,828	53,033	54,730	59,774	66,286
Capital WIP	1,367	1,483.2	1,593	1,593	1,593
Net Fixed assets	5,490	5,754	5,599	6,477	7,120
Investments	4,721	5,549	4,423	5,788	6,803
Inventories	908	1,181	1,194	1,866	1,779
Sundry Debtors	1,076	1,146	1,463	1,579	1,717
Cash & bank balances	2,551	1,943	1,902	2,092	2,301
Loans & Advances	14,746	15,573	14,581	17,801	19,719
Other Assets	2,147	2,558	2,671	3,170	3,639
Total current assets	7,052	8,040	8,182	9,333	10,650
Trade payables	423	547	901	958	1,020
Other current liabilities	5,124	4,429	2,827	4,341	4,411
Provisions	59,320	58,945	59,150	65,708	72,289
Net current assets	30,935	37,415	40,422	46,686	54,637
Total	21,230	14,248	11,132	11,132	9,469

Source: Company, Centrum Research Estimates

Exhibit 9: Cash Flow

Y/E March (Rsmn)	FY16	FY17	FY18E	FY19E	FY20E
Op profit before WC changes	9,921	10,241	9,135	10,334	12,387
Working capital changes	930	813	1,615	(842)	(157)
Cash from Operations	10,851	11,054	10,750	9,492	12,230
Adj. OCF (OCF-Interest)	9,230	9,964	10,158	9,092	11,880
Net capex	(2,771)	(3,043)	(4,697)	(8,000)	(9,650)
Adj. FCF (AOCF-Capex)	6,460	6,921	5,461	1,092	2,230
Cash from investing	(2,632)	(2,758)	(4,440)	(7,597)	(9,207)
Cash from financing	(9,428)	(6,586)	(6,211)	(1,223)	(3,111)
Net change in cash	(1,209)	1,710	99	672	(87)

Source: Company, Centrum Research Estimates

Appendix A

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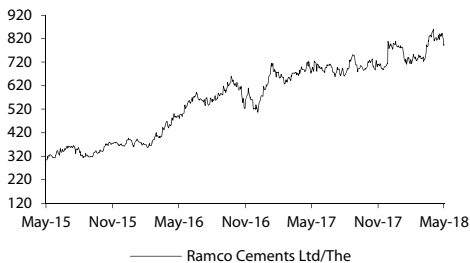
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Ramco Cements price chart



Source: Bloomberg, Centrum Research

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