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RAMCO CEMENTS

CEMENT

03 AUG 2016 | Quarterly Update

BUY

Target Price: Rs 597

Rapid deleveraging to boost equity

Ramco Cements further repaid Rs 3 bn debt during the quarter on the back of strong free cash flow generation. Debt repayment has been faster than our expectation due to savings in working capital. We now expect total debt reduction of Rs 8 bn vs. Rs 5 bn earlier. Net debt to reduce to Rs 14 bn/ 7 bn by end FY17/18 from a peak of Rs 29 bn in FY14.

We have been arguing that rapid deleveraging led by strong free cash flow will enhance the equity value (refer our previous reports for details: Ramco Cements: Entering the deleveraging cycle and Cement Sector: 4 key triggers).

CMP	: Rs 536
Potential Upside	: 11%

MARKET DATA

No. of Shares	: 238 mn
Free Float	: 58%
Market Cap	: Rs 128 bn
52-week High / Low	: Rs 595 / Rs 300
Avg. Daily vol. (6mth)	: 279,343 shares
Bloomberg Code	: TRCL IB Equity
Promoters Holding	: 42%
FII / DII	: 16% / 23%

Other highlights

- Q1FY17 EBITDA at Rs 3 bn (up 21% YoY) was broadly in line with our estimate, driven by 15% YoY volume growth (sales volume of 2.1 mnt). Ramco pushed additional volumes in Eastern region mainly in Odisha and West Bengal. Avg. EBITDA/ton was Rs 1,370 (vs. Rs 1,310 in Q1FY16 and Rs 1,630 in Q4FY16)
- **Realization:** Cement realization declined Rs 280/ton (6%) QoQ to Rs 4,600/ton due to correction in cement prices in Andhra Pradesh/Telangana regions. However, cement price drops in Andhra/ Telangana regions during Q1FY17 have fully reversed on the back of consecutive price hikes. Cement prices in Tamil Nadu are stable
- **Cost:** Total operating cost was flat QoQ. Higher pet-coke price is likely to increase power and fuel cost in H2
- We raise our EPS estimate for FY17/18 by 9% to Rs 28/33 due to higher volume growth assumption. We also raise our target FY18 EV/EBITDA multiple to 10x from 9x to reflect higher-than-expected decrease in debt level. Reiterate **BUY** with revised target price of Rs 597 (Rs 503 earlier)

Financial summary (Standalone)

Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	34,969	35,044	39,577	45,332
EBITDA (Rs mn)	7,889	11,132	13,128	14,539
Adj PAT (Rs mn)	2,398	5,346	6,626	7,968
Con. EPS* (Rs)	-	-	25	31
EPS (Rs)	10	22	28	33
Change YOY (%)	132	123	24	20
P/E (x)	53	24	19	16
RoE (%)	9	19	20	20
EV/E (x)	19.6	13.3	10.7	9.1
DPS (Rs)	2	3	4	4

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY16	FY17E	FY18E
Volumes (mnt)	7.2	8.2	9.0
% growth (YoY)	-6%	13%	10%
Avg. realn (Rs/t)	4,842	4,842	5,042
EBITDA (Rs/t)	1,480	1,427	1,437

Price performance

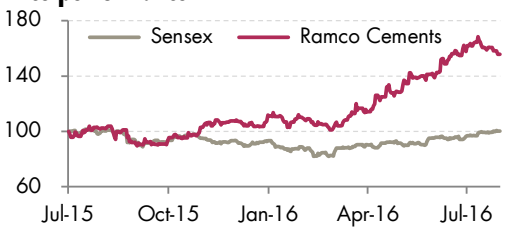

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Exhibit 1: Results update

	Quarter ended					12 months ended		
(Rs mn)	Jun-16	Jun-15	% Chg	Mar-16	% Chg	FY17E	FY16	% Chg
Net Sales	**9,721**	**9,509**	**2.2**	**10,149**	**(4.2)**	**39,577**	**35,044**	**12.9**
EBIDTA	3,042	2,514	21.0	3,453	(11.9)	12,305	11,132	10.5
Other income	19	18	2.2	28	(33.6)	157	409	(61.6)
PBIDT	**3,061**	**2,532**	**20.9**	**3,481**	**(12.1)**	**12,462**	**11,541**	**8.0**
Depreciation	663	668	(0.7)	652	1.7	2,681	2,686	(0.2)
Interest	291	488	(40.2)	444	(34.4)	1,138	1,821	(37.5)
PBT	**2,106**	**1,377**	**53.0**	**2,385**	**(11.7)**	**8,642**	**7,034**	**22.9**
Tax	547	402	36.1	534	2.4	2,840	1,688	68.3
Adjusted PAT	**1,559**	**975**	**59.9**	**1,851**	**(15.8)**	**5,803**	**5,346**	**8.5**
Extra ordinary income/ (exp.)	-	-	-	193	-	-	238	-
Reported PAT	**1,559**	**975**	**59.9**	**2,044**	**(23.7)**	**5,803**	**5,585**	**3.9**
No. of shares (mn)	238.0	238.0	-	238.0	-	238.1	238.1	-
EBIDTA margins (%)	31.3	26.4	-	34.0	-	31.1	31.8	-
PBIDT margins (%)	31.5	26.6	-	34.3	-	31.5	32.9	-
EPS - annualized (Rs.)	26.2	16.4	**59.9**	31.1	**(15.8)**	24.4	22.5	**8.5**

Source: Company, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	34,969	35,044	39,577	45,332
Other operating income	2,077	1,335	1,469	1,616
Total operating income	**37,046**	**36,380**	**41,045**	**46,948**
Cost of goods sold	(9,648)	(8,377)	(9,994)	(11,417)
Gross profit	27,398	28,002	31,051	35,531
Gross margin (%)	*78*	*80*	*78*	*78*
Total operating expenses	(19,509)	(16,871)	(17,923)	(20,991)
EBITDA	**7,889**	**11,132**	**13,128**	**14,539**
EBITDA margin (%)	*23*	*32*	*33*	*32*
Depreciation	(2,512)	(2,686)	(2,681)	(2,734)
EBIT	**5,376**	**8,446**	**10,447**	**11,806**
Net interest	(1,951)	(1,821)	(1,138)	(578)
Other income	183	409	157	156
Profit before tax	**3,608**	**7,034**	**9,465**	**11,383**
Total taxation	(1,210)	(1,688)	(2,840)	(3,415)
Tax rate (%)	*34*	*24*	*30*	*30*
Profit after tax	2,398	5,346	6,626	7,968
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	2,398	5,346	6,626	7,968
Adj. PAT margin (%)	*7*	*15*	*17*	*18*
Net non-recurring items	-	-	-	-
Reported net profit	2,398	5,346	6,626	7,968

Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	238	238	238	238
Reserves & surplus	26,024	30,502	36,020	42,770
Net worth	26,262	30,740	36,258	43,008
Borrowing	27,342	22,229	14,229	7,229
Other non-current liabilities	8,276	8,528	8,528	8,528
Total liabilities	**70,748**	**70,249**	**68,193**	**68,976**
Gross fixed assets	72,090	75,644	76,612	78,112
Less: Depreciation	(23,265)	(26,321)	(29,002)	(31,736)
Net fixed assets	48,825	49,323	47,610	46,376
Add: Capital WIP	2,627	1,468	2,000	2,000
Total fixed assets	51,452	50,792	49,610	48,376
Total Investment	3,577	2,551	2,551	2,551
Inventory	5,217	5,502	5,421	6,210
Debtors	3,802	4,685	4,337	4,968
Cash & bank	629	2,033	1,936	1,902
Loans & advances	6,072	4,686	4,337	4,968
Current liabilities	8,868	8,752	9,178	10,211
Net current assets	6,851	8,154	6,853	7,837
Other non-current assets	-	-	-	-
Total assets	**70,748**	**70,249**	**68,193**	**68,976**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	3,608	7,034	9,465	11,383
Depreciation & Amortisation	(2,512)	(2,686)	(2,681)	(2,734)
Chg in working capital	*1,529*	*101*	*1,203*	*(1,017)*
Cash flow from operations	**8,390**	**9,955**	**11,649**	**10,263**
Capital expenditure	*(3,922)*	*(2,396)*	*(1,500)*	*(1,500)*
Cash flow from investing	**(4,665)**	**(1,370)**	**(1,500)**	**(1,500)**
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	*(1,946)*	*(5,113)*	*(8,000)*	*(7,000)*
Dividend paid	*(430)*	*(861)*	*(1,107)*	*(1,218)*
Cash flow from financing	**(4,328)**	**(7,794)**	**(10,246)**	**(8,797)**
Net chg in cash	(603)	791	(97)	(33)

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	10	22	28	33
CEPS (Rs)	21	34	39	45
DPS (Rs)	2	3	4	4
Dividend payout ratio (%)	15	14	14	13
GROWTH				
Net sales (%)	(1)	-	13	15
EBITDA (%)	29	41	18	11
Adj net profit (%)	132	123	24	20
FDEPS (%)	132	123	24	20
PERFORMANCE				
RoE (%)	9	19	20	20
RoCE (%)	9	14	18	20
EFFICIENCY				
Asset turnover (x)	0.7	0.7	0.8	0.9
Sales/ total assets (x)	0.5	0.5	0.6	0.7
Working capital/ sales (x)	0.2	0.2	0.1	0.1
Receivable days	40	49	40	40
Inventory days	65	80	71	70
Payable days	106	120	120	115
FINANCIAL STABILITY				
Total debt/ equity (x)	1.1	0.8	0.4	0.2
Net debt/ equity (x)	1.0	0.7	0.4	0.1
Current ratio (x)	1.8	1.9	1.7	1.8
Interest cover (x)	2.8	4.6	9.2	20.4
VALUATION				
PE (x)	53	24	19	16
EV/ EBITDA (x)	19.6	13.3	10.7	9.1
EV/ Net sales (x)	4.4	4.2	3.5	2.9
PB (x)	5	4	4	3
Dividend yield (%)	-	1	1	1
Free cash flow yield (%)	4	6	8	7

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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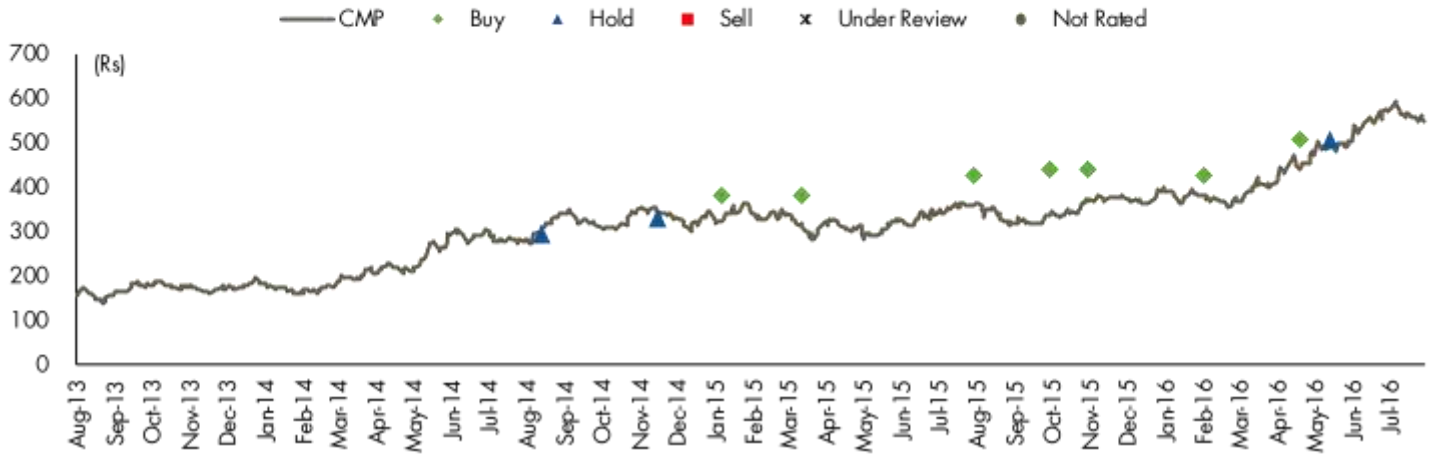
Ramco Cement (MSCM.BO, TRCL IN) Price and Recommendation History



Date	Target Price	Reco
19-Aug-14	291	Hold
21-Nov-14	330	Hold
12-Jan-15	379	Buy
18-Mar-15	379	Buy
5-Aug-15	425	Buy
5-Oct-15	435	Buy
6-Oct-15	435	Buy
6-Nov-15	435	Buy
8-Feb-16	425	BUY
26-Apr-16	503	BUY
20-May-16	503	Hold

Source: Axis Capital