

# Ramco Cements

Refer to important disclosures at the end of this report

## Strong volume growth; upgrade to ACCUMULATE

- Ramco Cements' Q4FY18 operating performance was above our estimates, with EBITDA coming in at Rs2.68bn against our estimate of Rs2.45bn and EBITDA/tonne at Rs980 against our estimate of Rs964, led by higher-than-estimated sales volume.
- Volume grew by 20.2% yoy to 2.74mt (Emkay Est: 2.55mt). Volume growth was 11.3% yoy in FY18 and the management is confident of maintaining this growth momentum in FY19. Realization for Q4FY18 was up 2.7% yoy at Rs4,571/tn. EBITDA/tn stood at Rs980 against Rs1,052/Rs975 in Q4FY17/Q3FY18.
- Opex/tn was up 5.7% yoy, led by 28.8% yoy increase in energy cost and 18.1% yoy increase in freight cost (higher diesel price and sales in Eastern markets). Grinding capacity is being increased by 3.1mt in the next 15-18 months, which would help perk up volume growth.
- We raise FY19/20E EBITDA estimates by 6.5%/6.7% due to higher volume assumptions. We expect EBITDA CAGR of 12.6% over FY18-FY20E. We upgrade the rating to ACCUMULATE with a TP of Rs864, (15x FY20E EV/EBITDA).

### Higher volume lifts operating performance

Higher-than-estimated volume led to the beat on operating parameters. Ramco Cements reported EBITDA of Rs2.68bn against our estimate of Rs2.45bn while OPM stood at 21.4% against our estimate of 20.8%. Volume was up 20.2% yoy at 2.74mt. The company achieved its highest ever volume in FY18 with growth standing at 11.3% yoy despite challenges in the South markets. Realization was up 2.7% yoy (down 0.8% qoq) to Rs4,571/tn. Higher volume led to 23.4% yoy growth in revenue to Rs12.51bn. Opex/tn was up 5.7% yoy on the back of higher energy cost (up 28.8% yoy due to rising Pet Coke prices) and 18.1% yoy increase in freight cost (due to higher diesel price and increased sales in the Eastern markets). Higher volume/realization lifted EBITDA up by 12% yoy to Rs2.68bn. However, OPM contracted by 220bps yoy to 21.4% due to cost pressures. EBITDA/tn stood at Rs980 against Rs1,052/Rs975 in Q4FY17/Q3FY18. Higher tax rate led to a 5.4% drop in the adjusted net profit to Rs1.27bn.

### Raise estimates; Rating upgraded to ACCUMULATE

We raise FY19-20E EBITDA estimates by 6.5%/6.7% on account of an increase in our volume assumptions. EPS estimates have been raised by 7.5%/7.7% for FY19E/20E. The company will incur a capex of Rs10.95bn to increase the grinding capacity by 3.1mt, which would help it to maintain the growth momentum in volume. It remains one of the most efficient cement companies in the South region and the management is confident of cost controls even in a rising cost environment. We expect EBITDA/PAT CAGR of 12.6%/18.9% over FY18-FY20E. We upgrade the rating to ACCUMULATE with a TP of Rs864, (15x FY20E EV/EBITDA).

### Financial Snapshot (Standalone)

(Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue	35,073	38,568	44,312	51,263	58,734
EBITDA	10,056	11,019	11,242	12,344	13,945
EBITDA Margin (%)	28.7	28.6	25.4	24.1	23.7
APAT	5,422	5,565	5,804	6,791	7,856
EPS (Rs)	22.8	23.4	24.6	28.8	33.3
EPS (% chg)	123.7	2.6	5.4	17.0	15.7
ROE (%)	18.9	16.3	14.9	15.6	15.8
P/E (x)	34.9	34.0	32.3	27.6	23.8
EV/EBITDA (x)	20.8	18.4	17.6	16.2	13.8
P/BV (x)	6.1	5.1	4.6	4.0	3.5

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 795</b>	<b>Rs 864 (▲)</b>
as of (May 23, 2018)	12 months
<b>Rating</b>	<b>Upside</b>
<b>ACCUMULATE (▲)</b>	<b>8.6 %</b>

### Change in Estimates

EPS Chg FY19E/FY20E (%)	7.5/7.7
Target Price change (%)	15.3
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

EPS Estimates		
	FY19E	FY20E
Emkay	28.8	33.3
Consensus	31.1	37.5
Mean Consensus TP (12M)	Rs 812	

### Stock Details

Bloomberg Code	TRCL IN
Face Value (Rs)	1
Shares outstanding (mn)	236
52 Week H/L	879 / 648
M Cap (Rs bn/USD bn)	187 / 2.74
Daily Avg Volume (nos.)	329,669
Daily Avg Turnover (US\$ mn)	3.8

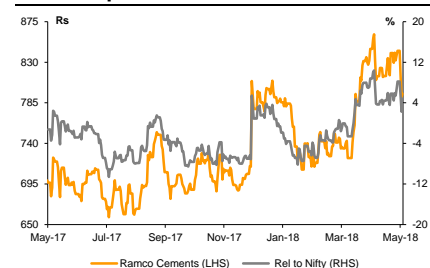
### Shareholding Pattern Mar '18

Promoters	42.8%
FIIIs	13.1%
DIIIs	20.4%
Public and Others	23.8%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(7)	11	12	16
<b>Rel. to Nifty</b>	(6)	11	11	5

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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## Exhibit 1: Actual vs. Estimates

(in Rs mn)	Actual	Estimate		% Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	12,508	11,806	11,713	5.9	6.8	Led by higher-than-estimated volume
EBITDA	2,682	2,458	2,498	9.1	7.4	Led by higher volume
EBITDA margin (%)	21.4	20.8	21.3	62bps	11bps	
Adj. PAT	1,272	1,288	1,377	-1.2	-7.6	Impacted by higher tax rate

Source: Company, Emkay Research, Bloomberg

## Exhibit 2: Quarterly Result

(Y/E Mar, Rs mn)	Q4FY17	Q3FY18	Q4FY18	YoY (%)	QoQ (%)	FY17	FY18	% (YoY)
Net Sales	10,132	10,475	12,508	23.4	19.4	39,495	44,064	11.6
Expenditure	7,737	8,258	9,826	27.0	19.0	27,549	33,070	20.0
as % of sales	76.4%	78.8%	78.6%			69.8%	75.1%	
Consumption of RM	1,868	1,955	2,216	18.6	13.4	6,393	7,207	12.7
as % of sales	18.4%	18.7%	17.7%			16.2%	16.4%	
Employee Cost	673	759	738	9.7	(2.8)	2,777	3,040	9.5
as % of sales	6.6%	7.2%	5.9%			7.0%	6.9%	
Power, Oil & Fuel	1,406	1,708	2,176	54.8	27.4	5,164	7,291	41.2
as % of sales	13.9%	16.3%	17.4%			13.1%	16.5%	
Transportation & Handling	2,052	2,262	2,912	41.9	28.8	7,383	9,281	25.7
as % of sales	20.3%	21.6%	23.3%			18.7%	21.1%	
Other expenditure	1,738	1,574	1,783	2.6	13.3	5,521	5,952	7.8
as % of sales	17.2%	15.0%	14.3%			14.0%	13.5%	
EBITDA	2,396	2,217	2,682	12.0	20.9	11,947	10,993	(8.0)
Depreciation	664	730	754	13.6	3.4	2,845	2,922	2.7
EBIT	1,732	1,488	1,928	11.3	29.6	9,537	8,438	(11.5)
Other Income	188	140	230	22.7	64.2	435	366	(15.8)
Interest	201	160	105	(48.0)	(34.7)	1,035	592	(42.8)
PBT	1,718	1,467	2,053	19.5	39.9	8,501	7,846	(7.7)
Total Tax	373	287	781	109.2	171.9	2,009	2,290	14.0
Adjusted PAT	1,345	1,180	1,272	(5.4)	7.8	6,493	5,556	(14.4)
(Profit)/loss from JV's/Ass/MI						0	0	
APAT after MI	1,345	1,180	1,272	(5.4)	7.8	6,493	5,556	(14.4)
Extra ordinary items	0	47				0	0	
Reported PAT	1,345	1,227	1,086	(19.2)	(11.5)	6,493	5,556	(14.4)
Adjusted EPS	5.7	5.0	5.3	(5.4)	7.8	27.3	23.6	(13.5)

Margins (%)				bps	bps			bps
EBIDTA	23.6	21.2	21.4	(220)	27	30.2	24.9	(530)
EBIT	17.1	14.2	15.4	(168)	121	24.1	19.1	(500)
EBT	17.0	14.0	16.4	(54)	241	21.5	17.8	(372)
PAT	13.3	11.3	10.2	(310)	(109)	16.4	12.6	(383)
Effective Tax rate	21.7	19.6	38.0	1,630	1,846	23.6	29.2	556

Source: Company, Emkay Research

**Exhibit 3: Operating analysis on per tonne basis**

Per ton costs	Q4FY17	Q3FY18	Q4FY18	YoY (%)	QoQ (%)	FY17	FY18	% (YoY)
Cement volumes	2.28	2.27	2.74	20.2	20.3	8.37	9.31	11.3
Raw Material	821	860	810	(1.3)	(5.8)	764	774	1.3
Employee	295	334	270	(8.7)	(19.2)	332	326	(1.7)
Power and fuel	617	751	795	28.8	5.9	617	783	26.8
Freight	901	995	1,064	18.1	7.0	882	997	12.9
Other Expenses	763	692	652	(14.6)	(5.8)	660	639	(3.1)
Net Realisation	4,450	4,606	4,571	2.7	(0.8)	4,721	4,732	0.2
Total cost per tonne	3,398	3,631	3,591	5.7	(1.1)	3,293	3,551	7.8
EBIDTA per tonne	1,052	975	980	(6.8)	0.5	1,428	1,181	(17.3)

Source: Company, Emkay Research

**Change in estimates**

We have raised volume assumptions by 6.3%/6.6% for FY19E/FY20E considering the company's increasing exposure to the East region. Higher assumptions have resulted in 6.5%/6.7% upgrade in EBITDA estimates for FY19E/FY20E. EPS estimates are being upgraded by 7.5%/7.7% for FY19E/FY20E.

**Exhibit 4: Change in estimates**

Particulars/ Rs mn	FY19E			FY20E		
	Earlier	Revised	% change	Earlier	Revised	% change
Volume (mt)	9.8	10.5	6.3%	11.0	11.7	6.6%
Realisation (Rs/tn)	4,773	4,773	0.0%	4,894	4,894	0.0%
Sales	48,287	51,263	6.2%	55,186	58,734	6.4%
EBIDTA	11,595	12,344	6.5%	13,072	13,945	6.7%
EBIDTA (%)	24.0	24.1	7bps	23.7	23.7	6bps
Net Profit	6,316	6,791	7.5%	7,293	7,856	7.7%
EPS (Rs)	26.8	28.8	7.5%	31.0	33.3	7.7%

Source: Company, Emkay Research

**Exhibit 5: Key assumptions**

	FY15	FY16	FY17	FY18	FY19E	FY20E
Grey Cement Sales (mt)	7.70	7.24	8.37	9.31	10.47	11.72
Realisation (Rs/tn)	4,526	4,793	4,721	4,732	4,773	4,894
<b>Per tonne costs (Rs)</b>						
Raw material	880	800	764	774	795	835
Employee cost	297	358	332	326	311	300
Power & Fuel	915	728	617	783	924	950
Freight	1,034	929	882	997	1,031	1,089
Other expense	663	629	660	639	656	650
<b>Total Cost</b>	<b>3,793</b>	<b>3,458</b>	<b>3,293</b>	<b>3,551</b>	<b>3,717</b>	<b>3,823</b>
EBITDA/tn	860	1390	1,428	1,181	1,179	1,190

Source: Company, Emkay Research

**Capex Highlights**

Over the next 12-15 months, the company plans to increase the grinding capacity by 3.1mt at a capex of Rs10.9bn. It plans to increase the existing grinding capacity at Vizag, Andhra Pradesh and Kolaghat, West Bengal by 1.1mt each. It also plans to set up a new grinding unit at Odisha with a capacity of 0.9mt. The capex will be funded through a mix of debt and internal accruals. We believe that the grinding units will help the company to achieve higher volume in the Eastern markets.

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue</b>	<b>35,073</b>	<b>38,568</b>	<b>44,312</b>	<b>51,263</b>	<b>58,734</b>
<b>Expenditure</b>	<b>25,017</b>	<b>27,549</b>	<b>33,070</b>	<b>38,919</b>	<b>44,790</b>
<b>EBITDA</b>	<b>10,056</b>	<b>11,019</b>	<b>11,242</b>	<b>12,344</b>	<b>13,945</b>
Depreciation	3,048	2,845	2,922	3,173	3,444
<b>EBIT</b>	<b>7,008</b>	<b>8,174</b>	<b>8,320</b>	<b>9,171</b>	<b>10,501</b>
Other Income	1,544	435	366	472	495
Interest expenses	1,819	1,035	592	708	659
<b>PBT</b>	<b>6,734</b>	<b>7,574</b>	<b>8,094</b>	<b>8,935</b>	<b>10,337</b>
Tax	1,312	2,009	2,290	2,144	2,481
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>5,422</b>	<b>5,565</b>	<b>5,804</b>	<b>6,791</b>	<b>7,856</b>
<b>Adjusted PAT</b>	<b>5,422</b>	<b>5,565</b>	<b>5,804</b>	<b>6,791</b>	<b>7,856</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	238	238	236	236	236
Reserves & surplus	30,688	37,178	40,258	46,221	52,975
<b>Net worth</b>	<b>30,926</b>	<b>37,416</b>	<b>40,493</b>	<b>46,457</b>	<b>53,211</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>21,230</b>	<b>14,248</b>	<b>11,131</b>	<b>13,236</b>	<b>8,730</b>
Net deferred tax liability	7,155	7,281	7,597	7,597	7,597
<b>Total Liabilities</b>	<b>59,320</b>	<b>58,945</b>	<b>59,221</b>	<b>67,290</b>	<b>69,538</b>
<b>Net block</b>	<b>51,371</b>	<b>51,830</b>	<b>52,981</b>	<b>61,808</b>	<b>61,865</b>
<b>Investment</b>	<b>1,442</b>	<b>1,483</b>	<b>1,593</b>	<b>1,593</b>	<b>1,593</b>
<b>Current Assets</b>	<b>14,746</b>	<b>15,573</b>	<b>14,439</b>	<b>16,554</b>	<b>20,772</b>
Cash & bank balance	883	2,899	959	1,181	3,038
Other Current Assets	15	34	34	34	34
<b>Current liabilities &amp; Provision</b>	<b>9,622</b>	<b>11,144</b>	<b>11,540</b>	<b>13,166</b>	<b>15,192</b>
<b>Net current assets</b>	<b>5,124</b>	<b>4,429</b>	<b>2,899</b>	<b>3,389</b>	<b>5,580</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>59,320</b>	<b>58,945</b>	<b>59,221</b>	<b>67,290</b>	<b>69,538</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>7,030</b>	<b>8,502</b>	<b>7,479</b>	<b>8,463</b>	<b>9,842</b>
Other Non-Cash items	(164)	(7)	(116)	0	0
Chg in working cap	666	1,095	1,624	(268)	(334)
<b>Operating Cashflow</b>	<b>10,628</b>	<b>11,336</b>	<b>10,527</b>	<b>9,931</b>	<b>11,129</b>
Capital expenditure	(2,490)	(3,043)	(4,619)	(10,751)	(3,500)
<b>Free Cash Flow</b>	<b>8,137</b>	<b>8,293</b>	<b>5,907</b>	<b>(820)</b>	<b>7,629</b>
Investments	28	(30)	(110)	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(2,352)</b>	<b>(2,758)</b>	<b>(4,362)</b>	<b>(10,279)</b>	<b>(3,005)</b>
Equity Capital Raised	0	0	(1,650)	0	0
Loans Taken / (Repaid)	(5,100)	(5,496)	(3,117)	2,105	(4,506)
Dividend paid (incl tax)	(1,291)	0	(827)	(827)	(1,103)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>(8,011)</b>	<b>(6,586)</b>	<b>(6,186)</b>	<b>570</b>	<b>(6,268)</b>
<b>Net chg in cash</b>	<b>265</b>	<b>1,992</b>	<b>(22)</b>	<b>222</b>	<b>1,857</b>
Opening cash position	619	908	1,181	959	1,181
<b>Closing cash position</b>	<b>883</b>	<b>2,899</b>	<b>959</b>	<b>1,181</b>	<b>3,038</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
EBITDA Margin	28.7	28.6	25.4	24.1	23.7
EBIT Margin	20.0	21.2	18.8	17.9	17.9
Effective Tax Rate	19.5	26.5	28.3	24.0	24.0
Net Margin	15.5	14.4	13.1	13.2	13.4
ROCE	14.1	14.6	14.7	15.2	16.1
ROE	18.9	16.3	14.9	15.6	15.8
RoIC	12.7	14.8	15.1	15.4	16.4

<b>Per Share Data (Rs)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
EPS	22.8	23.4	24.6	28.8	33.3
CEPS	35.6	35.3	37.0	42.3	48.0
BVPS	129.9	157.2	171.9	197.2	225.9
DPS	3.6	3.6	3.5	3.5	4.7

<b>Valuations (x)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
PER	34.9	34.0	32.3	27.6	23.8
P/CEPS	22.3	22.5	21.5	18.8	16.6
P/BV	6.1	5.1	4.6	4.0	3.5
EV / Sales	6.0	5.2	4.5	3.9	3.3
EV / EBITDA	20.8	18.4	17.6	16.2	13.8
Dividend Yield (%)	0.5	0.5	0.4	0.4	0.6

<b>Gearing Ratio (x)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Net Debt/ Equity	0.7	0.3	0.3	0.3	0.1
Net Debt/EBIDTA	2.0	1.2	0.9	1.0	0.4
Working Cap Cycle (days)	43.9	30.7	16.0	15.7	15.8

<b>Growth (%)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
Revenue	(2.4)	10.0	14.9	15.7	14.6
EBITDA	51.9	9.6	2.0	9.8	13.0
EBIT	70.0	16.6	1.8	10.2	14.5
PAT	123.7	2.6	4.3	17.0	15.7

<b>Quarterly (Rs mn)</b>	<b>Q4FY17</b>	<b>Q1FY18</b>	<b>Q2FY18</b>	<b>Q3FY18</b>	<b>Q4FY18</b>
Revenue	10,132	9,905	10,293	10,475	12,508
EBITDA	2,396	2,522	2,568	2,217	2,682
<b>EBITDA Margin (%)</b>	<b>23.6</b>	<b>25.5</b>	<b>24.9</b>	<b>21.2</b>	<b>21.4</b>
PAT	1,345	1,558	1,685	1,227	1,086
<b>EPS (Rs)</b>	<b>5.7</b>	<b>6.5</b>	<b>7.1</b>	<b>5.2</b>	<b>4.6</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-17</b>	<b>Jun-17</b>	<b>Sep-17</b>	<b>Dec-17</b>	<b>Mar-18</b>
Promoters	42.3	42.7	42.8	42.8	42.8
FIs	14.5	14.5	14.8	13.9	13.1
DIs	18.9	18.5	18.0	19.1	20.4
Public and Others	24.3	24.3	24.4	24.3	23.8

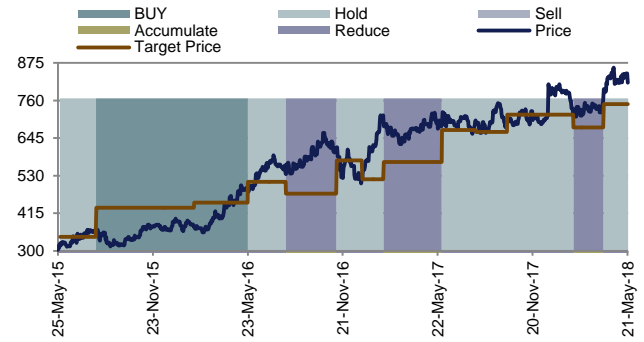
Source: Capitaline

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
5-Apr-18	795	749	12m	Hold	Sanjeev Kumar Singh
6-Feb-18	733	678	12m	Reduce	Sanjeev Kumar Singh
15-Dec-17	706	717	12m	Hold	Sanjeev Kumar Singh
2-Oct-17	692	717	12m	Hold	Sanjeev Kumar Singh
3-Aug-17	688	664	12m	Hold	Sanjeev Kumar Singh
30-May-17	691	670	12m	Hold	Sanjeev Kumar Singh
7-Feb-17	681	572	12m	Reduce	Sanjeev Kumar Singh
28-Dec-16	526	519	12m	Hold	Sanjeev Kumar Singh
9-Nov-16	604	577	12m	Hold	Sanjeev Kumar Singh
23-Sep-16	618	475	12m	Reduce	Sanjeev Kumar Singh
9-Sep-16	589	475	12m	Reduce	Sanjeev Kumar Singh
4-Aug-16	535	475	12m	Reduce	Sanjeev Kumar Singh
23-May-16	488	511	12m	Hold	Sanjeev Kumar Singh
13-May-16	490	448	12m	Buy	Sanjeev Kumar Singh
22-Apr-16	449	448	12m	Buy	Sanjeev Kumar Singh
21-Mar-16	421	448	12m	Buy	Sanjeev Kumar Singh
10-Feb-16	375	448	12m	Buy	Sanjeev Kumar Singh
9-Feb-16	374	432	12m	Buy	Sanjeev Kumar Singh
18-Jan-16	362	432	12m	Buy	Sanjeev Kumar Singh
11-Dec-15	364	432	12m	Buy	Sanjeev Kumar Singh
9-Nov-15	367	432	12m	Buy	Sanjeev Kumar Singh
28-Sep-15	317	432	12m	Buy	Sanjeev Kumar Singh
6-Aug-15	364	432	12m	Buy	Sanjeev Kumar Singh
29-May-15	323	343	12m	Hold	Sanjeev Kumar Singh

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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