

The Ramco Cements

BSE SENSEX	S&P CNX
24,021	7,298
Bloomberg	TRCL IN
Equity Shares (m)	238.1
M.Cap.(INRb)/(USDb)	90.7 / 1.3
52-Week Range (INR)	406/270
1, 6, 12 Rel. Per (%)	0/23/29
Avg Val, (INR m)	66.2
Free float (%)	57.7

Financials & Valuations (INR b)

Y/E Mar	2015	2016E	2017E
Sales	35.9	35.5	38.7
EBITDA	6.6	10.2	11.3
NP	2.4	4.7	5.3
Adj EPS (INR)	10.2	19.6	22.4
EPS Gr. (%)	106.8	92.5	14.4
BV/Sh. (INR)	111.1	128.4	147.3
RoE (%)	9.5	16.4	16.3
RoCE (%)	10.2	15.3	17.1
Payout (%)	17.1	11.9	15.6
P/E (x)	36.7	19.1	16.7
P/BV (x)	3.4	2.9	2.5
EV/EBITDA (x)	17.1	10.8	9.3
EV/Ton (USD)	115	105	97

EBITDA Est.Change	6-12% ↑
TP change	6% ↑
Rating change	↔

CMP: INR374 TP: INR450 (+20%)

Buy

Best in class profitability continues; de-growth quantum contracted

- Quantum of de-growth contracted:** Ramco Cement's (TRCL) 3QFY16's volume de-growth reduced from double digit level of previous 5 quarters to 5.4%YoY (-5% QoQ) to 1.63mt led by broader stabilization in south market and base effect. Realizations were resilient at 0.5% QoQ. With marginal contribution from wind power business, revenue stood at INR8.1b (3.3%YoY, -7% QoQ).
- Best in class profitability phase underway:** Blended EBITDA/ton stood at INR1,504 1/6x YoY, -6% QoQ). Cement EBITDA at INR1525 (+6% QoQ, 1.6x YoY) adjusting for negative wind power EBITDA. EBITDA was up 2.4x YoY to INR2.5b, translating into margin of 30.1%, (-1.2pp QoQ, +17.4pp YoY). PAT at INR1.2b (+4x YoY, -15% QoQ) led by prior period tax write back.
- Confluence of pricing and cost tailwinds:** Amidst strong price discipline in south and premium positioning of Ramco, the boost in profitability was attributable to multiple cost tailwinds viz. (a) lower fuel prices (imported and pet coke, pet coke mix near ~40%), (b) lower other expenses due to reduction in ad-expenses (for WB entry), lower maintenance capex (may see roll back in 4Q) and decline in packing cost, (c) beneficiation helping RM cost reduction.
- Valuation and view:** TRCL offers strong play on southern recovery due to (a) superior brand, (b) edge over cost efficiencies, and (c) visibility of de-leveraging (started in FY16). Our assumption of 6% volume and 4% price CAGR to drive 15%/22% EBITDA/PAT CAGR for TRCL in FY16-18. We upgrade FY16-18 EBITDA by 6-12% to factor in better price, volume and cost. The stock trades at 9.3x/7.2x FY17E/18E EV/EBITDA, and EV/ton of USD97. We maintain **Buy** with a TP of INR450, an upside of 20% (valuing cement business at 8.5x FY18E EBITDA, EV/ton of USD105).

Quarterly Performance

Y/E March	FY15				FY16				(INR Million)		Variance	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY15	FY16E	3QE	(%)
Sales Dispatches (m ton)	2.13	1.94	1.72	1.88	1.81	1.71	1.63	1.88	7.67	7.03	1.5	5
YoY Change (%)	-3.9	-11.4	-11.6	-16.3	-14.8	-11.9	-5.4	0.1	-10.8	-8.3	-10.0	
Realization (INR/ton)	4,401	4,739	4,744	5,311	5,178	5,028	5,051	5,044	4,786	5,076	4,878	4
YoY Change (%)	2.2	16.2	6.5	21.8	17.7	6.1	6.5	-5.0	11.4	6.1	2.8	
QoQ Change (%)	0.9	7.7	0.1	12.0	-2.5	-2.9	0.5	-0.1			-3.0	
Net Sales	9,243	9,221	7,861	9,614	9,225	8,740	8,119	9,394	35,939	35,478	7,323	11
YoY Change (%)	-3.7	1.9	-6.7	4.0	-0.2	-5.2	3.3	-2.3	-1.1	-1.3	-6.8	
EBITDA	1,365	1,870	1,001	2,386	2,230	2,736	2,446	2,801	6,622	10,212	1,484	65
Margins (%)	14.8	20.3	12.7	24.8	24.2	31.3	30.1	29.8	18.4	28.8	20.3	
Depreciation	627	624	626	622	668	671	679	678	2,499	2,696	700	
Interest	500	480	485	473	488	453	418	438	1,938	1,796	430	
Other Income	367	318	317	378	302	199	109	149	1,379	759	190	
PBT	605	1,084	206	1,669	1,377	1,811	1,458	1,834	3,564	6,479	544	168
Tax	243	187	-24	735	402	423	280	709	1,141	1,814	158	
Rate (%)	40.1	17.2	-11.4	44.0	29.2	23.4	19.2	38.6	32.0	28.0	29.0	
Adj PAT	363	897	230	934	975	1,387	1,177	1,125	2,423	4,665	386	205
YoY Change (%)	-47.3	391.0	-10.3	474.8	168.9	54.6	412.8	-220.4	111.3	92.5	68.2	
Margins (%)	3.9	9.7	2.9	9.7	10.6	15.9	14.5	12.0	6.7	13.1	5.3	

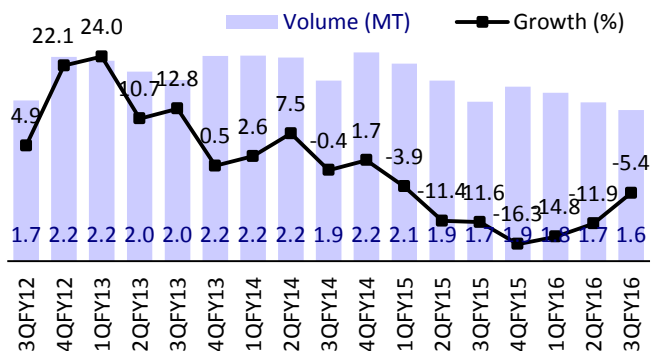
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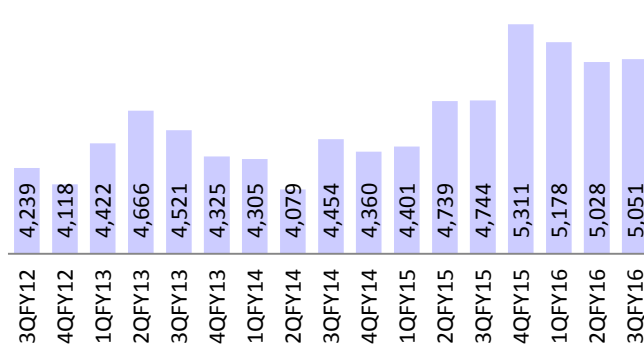
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Exhibit 1: Cement volumes de-grew 5.4% YoY



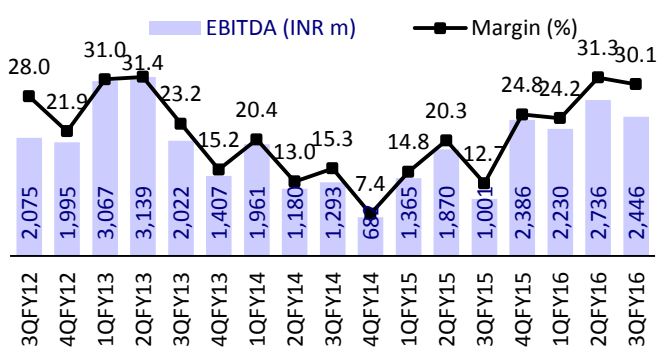
Source: Company, MOSL

Exhibit 2: Realizations up 0.5% QoQ (INR m)



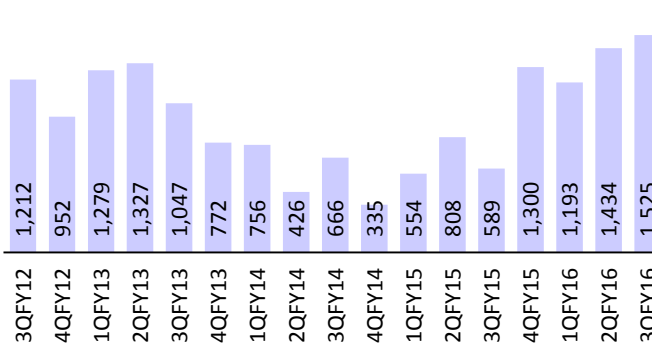
Source: Company, MOSL

Exhibit 3: Strong OPM led by better cost



Source: Company, MOSL

Exhibit 4: Trend in EBITDA/ton



Source: Company, MOSL

Exhibit 5: Per ton analysis (incl Windmills)

INR/Ton	3QFY16	3QFY15	YoY (%)	2QFY16	QoQ (%)
Net realization	4,993	4,576	9	5,108	-2
RM Cost	859	934	-8	654	31
Employee Expenses	392	330	19	398	-2
Power, Oil & Fuel	709	915	-23	794	-11
Freight and Handling Outward	907	1,055	-14	909	0
Other Expenses	621	759	-18	754	-18
Total Expenses	3,489	3,993	-13	3,509	-1
EBITDA	1,504	583	158	1,599	-6
Cement EBITDA (ex windmills)	1,525	589	159	1,434	6

Source: Company, MOSL

Exhibit 6: Revised forecast

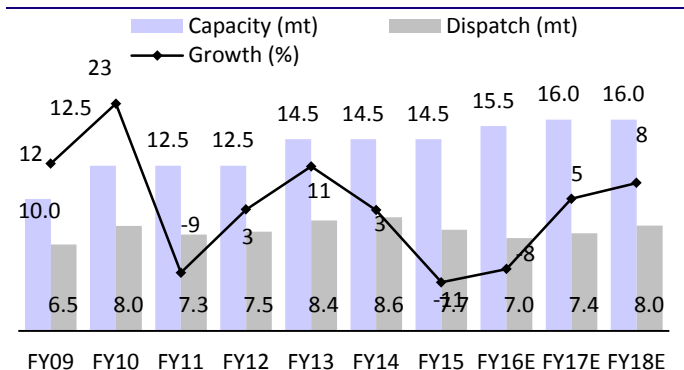
(INR M)	FY16E			FY17E			FY18E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	35,478	34,609	2.5	38,678	38,422	0.7	44,188	44,373	-0.4
EBITDA	10,212	9,000	13.5	11,302	10,394	8.7	13,449	12,707	5.8
Net Profit	4,665	3,620	28.9	5,335	4,715	13.1	6,973	6,512	7.1
EPS (INR)	19.6	15.2	28.9	22.4	19.8	13.1	29.3	27.4	7.1

Source: Company, MOSL

Valuation and views

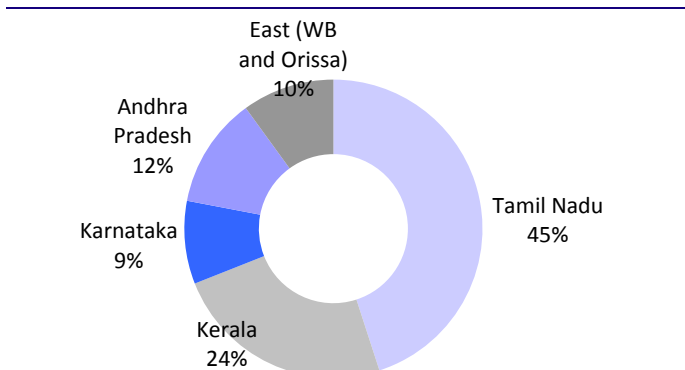
- TRCL is among the lowest cost cement producers in south along with the most premium brands. Strong brand and higher trade segment mix aids superior pricing in core markets.
- Its industry leading profitability is genesis of (a) premium pricing, (b) operating efficiencies viz. higher usage of captive power (insulates against tariff rise or unavailability), strategic location of plants, etc. and (c) continuous efforts toward process optimization.
- De-leveraging has already started with INR4.4b reduction in net debt over 9MFY16 (~INR23b, 0.7x). With no immediate capex plan (barring 0.5mt of clinker de-bottlenecking), we expect TRCL to generate INR8-10b of annual FCF FY17 onwards, aiding further reduction ahead.
- Delay in recovery of cement demand in south, coupled with weakness in TN demand may result into volume growth for TRCL more gradual in nature. However with capacity, cost-leadership and pricing superiority in place, we consider this to be the best play on southern recovery. Our assumption of 6% volume and 4% price CAGR to drive 15%/22% EBITDA/PAT CAGR for TRCL in FY16-18.
- We upgrade FY16-18 EBITDA by 6-12% to factor in better price, volume and cost. The stock trades at 9.3x/7.2x FY17E/18E EV/EBITDA, and EV/ton of USD97. We maintain **Buy** with a TP of INR450, an upside of 20% (valuing cement business at 8.5x FY18E EBITDA, EV/ton of USD105).

Exhibit 7: Robust utilization headroom



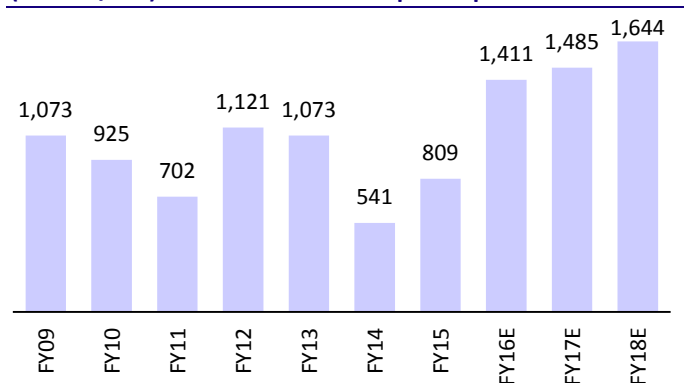
Source: Company, MOSL

Exhibit 8: Market mix



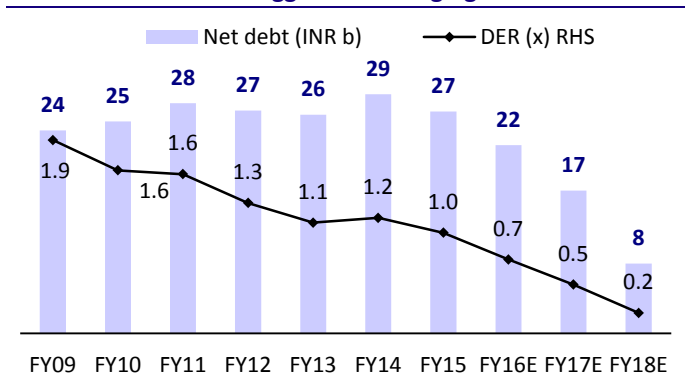
Source: Company, MOSL

Exhibit 9: Expect steady recovery in profitability (EBITDA/ton) as southern demand picks up...



Source: Company, MOSL

Exhibit 10: ...and will trigger de-leveraging



Source: Company, MOSL

Financials and Valuations

Income Statement						(INR Million)		
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Net Sales	26,049	32,030	37,884	36,321	35,939	35,478	38,678	44,188
Change (%)	-7.0	23.0	18.3	-4.1	-1.1	-1.3	9.0	14.2
EBITDA	6,181	9,163	9,631	5,116	6,622	10,212	11,302	13,449
EBITDA Margin (%)	23.7	28.6	25.4	14.1	18.4	28.8	29.2	30.4
Depreciation	2,208	2,539	2,806	3,063	2,499	2,696	2,990	3,094
EBIT	3,973	6,624	6,825	2,054	4,123	7,516	8,313	10,355
Interest	1,399	1,585	1,785	1,881	1,938	1,796	1,665	1,405
Other Income	399	536	842	1,141	1,379	759	974	1,305
Extraordinary items	-16	-1	-5	230	0	0	0	0
PBT	2,957	5,574	5,877	1,543	3,564	6,479	7,621	10,255
Tax	863	1,723	1,846	166	1,141	1,814	2,286	3,282
Tax Rate (%)	29.2	30.9	31.4	10.8	32.0	28.0	30.0	32.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	2,094	3,851	4,032	1,377	2,423	4,665	5,335	6,973
Adjusted PAT	2,105	3,852	4,035	1,172	2,423	4,665	5,335	6,973
Change (%)	-40.5	83.0	4.8	-71.0	106.8	92.5	14.4	30.7

Balance Sheet						(INR Million)		
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Share Capital	238	238	238	238	238	238	238	238
Reserves	17,107	20,266	23,470	24,583	26,214	30,325	34,830	40,697
Net Worth	17,345	20,504	23,708	24,821	26,452	30,563	35,068	40,935
Debt	27,912	27,104	26,671	29,000	27,119	24,119	19,119	13,119
Deferred Tax	5,890	6,492	7,164	7,374	8,271	8,271	10,328	10,328
Total Capital Employed	51,147	54,100	57,542	61,195	61,841	62,953	64,515	64,382
Gross Fixed Assets	51,105	56,704	64,388	67,880	72,727	77,425	79,925	82,925
Less: Acc Depreciation	13,175	15,553	18,359	21,422	23,920	26,616	29,606	32,700
Net Fixed Assets	37,930	41,152	46,029	46,458	48,807	50,808	50,319	50,225
Capital WIP	5,457	5,276	1,480	3,495	2,575	1,000	1,000	1,000
Investments	2,673	2,665	2,658	2,834	3,558	3,558	3,558	3,558
Current Assets	10,988	11,491	14,547	15,899	15,763	16,954	17,693	20,526
Inventory	3,923	4,911	5,948	6,855	5,206	5,554	5,813	5,811
Debtors	1,751	2,079	3,028	3,040	3,802	4,221	4,360	4,427
Cash & Bank	400	475	536	447	618	1,624	2,071	4,753
Loans & Adv, Others	4,913	4,026	5,035	5,557	6,136	5,554	5,450	5,534
Curr Liabs & Provns	5,900	6,483	7,172	7,492	8,861	9,368	8,055	10,927
Curr. Liabilities	4,564	4,892	5,300	6,443	7,238	7,554	7,872	8,302
Provisions	1,335	1,591	1,873	1,049	1,623	1,814	183	2,625
Net Current Assets	5,088	5,008	7,375	8,407	6,901	7,586	9,638	9,600
Total Assets	51,147	54,100	57,542	61,195	61,841	62,953	64,515	64,382

Financials and Valuations

Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Basic (INR)								
EPS	8.8	16.2	17.0	4.9	10.2	19.6	22.4	29.3
Cash EPS	18.1	26.9	28.7	17.8	20.7	30.9	35.0	42.3
Book Value	72.9	86.2	99.6	104.3	111.1	128.4	147.3	172.0
DPS	1.3	2.5	3.0	1.0	1.5	2.0	3.0	4.0
Payout (incl. Div. Tax.)	16.5	18.0	20.6	20.2	17.1	11.9	15.6	15.9
Valuation(x)								
P/E				77.8	36.7	19.1	16.7	12.8
Cash P/E				21.5	18.1	12.1	10.7	8.8
Price / Book Value				3.7	3.4	2.9	2.5	2.2
EV/Sales				3.2	3.1	3.1	2.7	2.2
EV/EBITDA				22.7	17.1	10.8	9.3	7.2
Dividend Yield (%)				0.3	0.4	0.5	0.8	1.1
Profitability Ratios (%)								
RoE	12.8	20.4	18.3	4.8	9.5	16.4	16.3	18.3
RoCE	10.1	15.4	15.6	6.1	10.2	15.3	17.1	21.5
Turnover Ratios (%)								
Asset Turnover (x)	0.5	0.6	0.7	0.6	0.6	0.6	0.6	0.7
Debtors (No. of Days)	22	21	26	27	34	38	36	32
Inventory (No. of Days)	55	56	57	69	53	57	55	48
Creditors (No. of Days)	84	78	68	75	90	109	105	99
Leverage Ratios (%)								
Net Debt/Equity (x)	1.6	1.3	1.1	1.2	1.0	0.7	0.5	0.2

Cash Flow Statement

(INR Million)

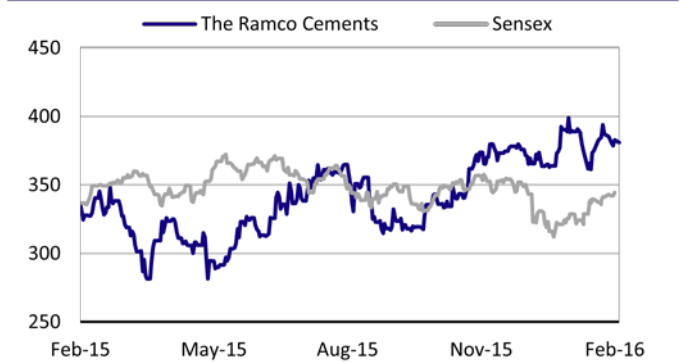
Y/E Mar	2011	2012	2013	2014	2015	2016E	2017E	2018E
Adjusted EBITDA	6,181	9,163	9,631	5,116	6,622	10,212	11,302	13,449
Non cash opr. exp (inc)	399	536	842	1,141	1,379	759	974	1,305
(Inc)/Dec in Wkg. Cap.	850	155	-2,306	-1,121	1,299	699	-1,606	2,722
Tax Paid	-824	-1,121	-1,174	44	-244	-1,814	-229	-3,282
Other operating activities	-21	-162	-5	230	0	0	0	0
CF from Op. Activity	6,585	8,570	6,989	5,410	9,057	9,855	10,441	14,194
(Inc)/Dec in FA & CWIP	-5,273	-5,419	-3,888	-5,507	-3,550	-3,500	-2,500	-3,000
Free cash flows	1,312	3,152	3,101	-97	5,507	6,355	7,941	11,194
(Pur)/Sale of Invt	-1,785	8	7	-176	-724	0	0	0
Others	0	0	0	0	0	0	0	0
CF from Inv. Activity	-7,058	-5,411	-3,881	-5,684	-4,274	-3,500	-2,500	-3,000
Inc/(Dec) in Net Worth	16	0	2	15	-378	0	0	0
Inc / (Dec) in Debt	2,247	-808	-434	2,330	-1,881	-3,000	-5,000	-6,000
Interest Paid	-1,399	-1,585	-1,785	-1,881	-1,938	-1,796	-1,665	-1,405
Divd Paid (incl Tax) & Others	-346	-692	-830	-279	-415	-553	-830	-1,106
CF from Fin. Activity	517	-3,084	-3,047	184	-4,612	-5,349	-7,495	-8,511
Inc/(Dec) in Cash	44	75	61	-89	171	1,006	446	2,683
Add: Opening Balance	356	400	475	536	447	618	1,624	2,071
Closing Balance	400	475	536	447	618	1,625	2,071	4,753

Corporate profile

Company description

The Ramco Cements (TRCL) is one of the top three cement producers in South India with total nameplate capacity of 12.5mtpa (0.95mtpa in West Bengal and the balance in the South). It also has operational wind farm capacity of 159MW and 157MW of CPP capacity. Despite the unfavorable southern market, MC offers an attractive play due to superior operating efficiency, premium profitability and strong FCF visibility.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-15	Jun-15	Sep-14
Promoter	42.3	42.3	42.3
DII	24.5	23.0	18.3
FII	13.7	15.5	18.9
Others	19.5	19.2	20.5

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
The Governor Government of Tamil Nadu	3.4
Aberdeen Global Asian Smaller Companies Fund	2.9
Amrit Petroleums Pvt Ltd	2.5
Aberdeen Global Emerging Markets Smaller Companies Fund	2.0
Franklin Templeton Investment Fund	1.7

Source: Capitaline

Exhibit 4: Top management

Name	Designation
P R Ramasubrahmaneya Rajha	Chairman & Managing Director
K Selvanayagam	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
M B N Rao	M M Venkatachalam
P R Venketrama Raja	R S Agarwal
Chitra Venkatraman	

Exhibit 6: Auditors

Name	Type
CNGSN & Associates	Statutory
Geeyes & Co	Cost Auditor
M S Jagannathan & N Krishnaswami	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	19.6	17.6	11.1
FY17	22.4	22.7	-1.2
FY18	29.3	28.2	3.8

Source: Bloomberg

NOTES

Disclosures

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