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FY19 annual report
analysis

Cement

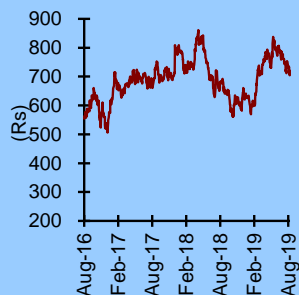
Target price Rs854

Shareholding pattern

	Dec '18	Mar '19	Jun '19
Promoters	42.8	42.8	42.8
Institutional investors	34.9	34.6	34.9
MFs and Others	21.4	20.9	20.9
FIs//Bank/Ins.	2.1	2.1	1.9
FIIIs	11.4	11.6	12.1
Others	22.3	22.6	22.3

Source: CMIE

Price chart



Ramco Cements

BUY

Maintained

Rs720

AR analysis – Targeting 20mnte by 2020

Key takeaways from Ramco Cement (TRCL)'s FY19 annual report analysis include: i) clinker utilisation increased sharply to 82% in FY19 from 68% in FY18, ii) on track to increase grey cement capacity by >40% to 20mnte by 2020 with slight delays, iii) consolidated EBITDA to OCF conversion (ex-interest) was lower at 74% (vs 102% in FY18) on higher working capital requirements and net debt increased by Rs5.4bn to Rs15.4bn and iv) return ratios declined 100-200bps YoY on lower profitability and higher capex. We maintain our FY20-21E estimates with target price unchanged at Rs854/share based on 13x FY21E EV/E. We factor-in 11% volume CAGR over FY20E-FY21E and expect cement EBITDA/te to increase from Rs922/te in FY19 to Rs1,158/te by FY21E. Maintain BUY.

- ▶ **TRCL's clinker utilisation increased sharply to 82% in FY19 from 68% in FY18.** Clinker and cement production grew 20% YoY each to 8.6mnte and 11.2mnte with hardly any clinker sales in FY19. Accordingly, clinker to cement ratio have been maintained YoY at 1.3x; though down from 1.37x in FY17 led by higher demand from infrastructure. Fly ash and slag blending in % per te of PPC and PSC reduced by 113bps and 818bps YoY to 24.6% and 59.1% respectively. Power consumption norms improved by 1.6kwh/te YoY to ~76.5kwh/te in FY19. TRCL is focusing on increasing share of premium products and has launched a premium product SUPERCREETE in Tamil Nadu and Kerala in Q1FY20.
- ▶ **On track to increase capacity by >40% to 20mnte by 2020 with minor delays:** TRCL clinker capacity expansion has been at Jayanthipuram from 3mnte to 4.5mnte along with 27MW WHRS and 1.1mnte Vizag cement capacity expansion is delayed by a quarter to be commissioned in Sep'20 and Mar'20, respectively. Cement grinding capacity expansion from 1mnte to 2mnte in Kolaghat, West Bengal with railway siding facility is under trial run and is expected to commission shortly. TRCL plans to set up a new greenfield unit in Odisha with capacity of 0.9mnte by Oct'19. Besides, new greenfield plant at Kurnool, Andhra Pradesh with clinker capacity of 2.25mnte and cement capacity of 1mnte along with railway siding, 10MW WHRS and 15MW CPP is now expected by Mar'21 vs earlier expectations of Sep'20.
- ▶ **Consolidated EBITDA to OCF conversion (ex-interest) was lower at 74% (vs 102% in FY18)** mainly led by higher working capital requirement. Net debt increased by Rs5.4bn to Rs15.4bn as OCF of Rs7.6bn was insufficient to fund capex of Rs12bn and dividend payment of Rs853mn.
- ▶ **Other key highlights:** TRCL also invested ~Rs197mn in subsidiaries/ associates (Lynks logistics and Ramco Industrial and Technology Services Ltd.) and Rs181mn in investment in property. TRCL has incurred incremental donations to various Chief Ministers' Relief Funds and political parties of Rs242mn in FY19. Besides, promoter/ MD and CEO salaries increased 10-12% YoY to Rs373mn and Rs133mn respectively in FY19.

Market Cap	Rs170bn/US\$2.4bn
Reuters/Bloomberg	RAMC.BO / TRCL IN
Shares Outstanding (mn)	235.6
52-week Range (Rs)	838/561
Free Float (%)	57.2
FII (%)	12.1
Daily Volume (US\$'000)	3,709
Absolute Return 3m (%)	(8.4)
Absolute Return 12m (%)	5.9
Sensex Return 3m (%)	(4.8)
Sensex Return 12m (%)	(3.0)

Year to Mar	2018	2019	2020E	2021E
Revenue (Rs mn)	44,238	51,623	57,537	66,595
EBITDA (Rs mn)	10,997	10,664	13,759	16,338
Net Income (Rs)	5,514	5,326	7,177	8,445
% Chg YoY	(15.9)	(3.4)	34.8	17.7
P/E (x)	30.8	31.9	23.7	20.1
CEPS (Rs)	35.9	35.3	44.2	51.8
EV/E (x)	16.4	17.4	13.3	11.1
Dividend Yield	0.4	0.4	0.5	0.6
RoCE (%)	9.9	8.7	10.5	11.4
RoE (%)	14.0	12.3	14.8	15.3

Research Analysts:

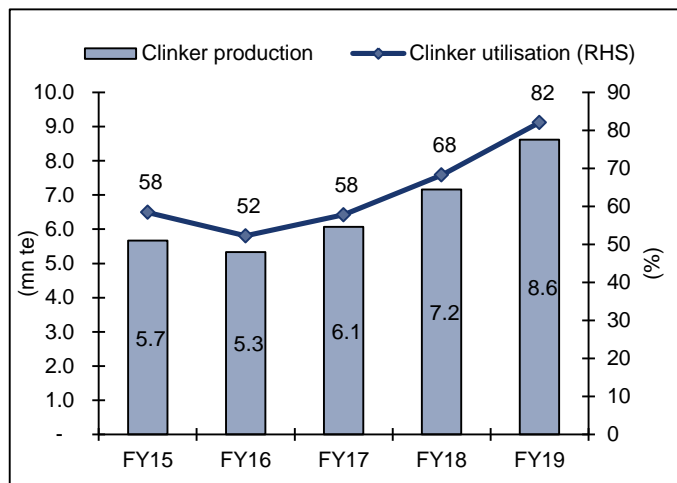
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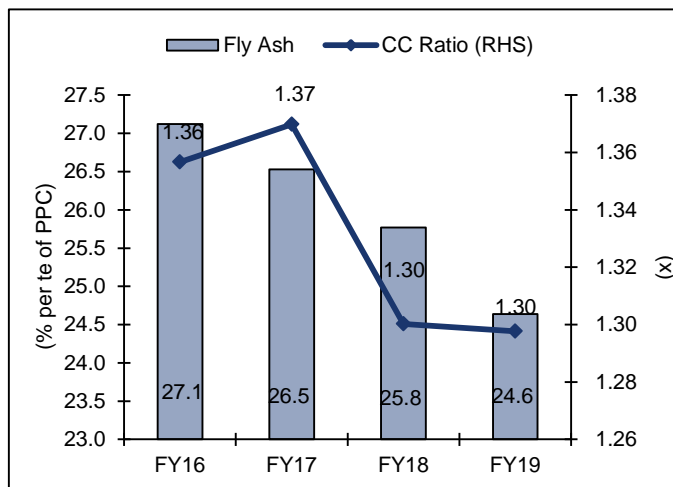
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Chart 1: Clinker production increased 20% YoY with utilisation sharply increased to 82% in FY19



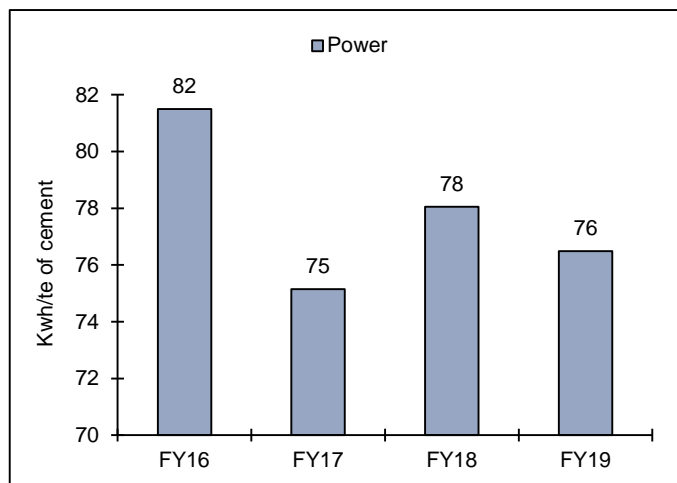
Source: Company data, I-Sec research

Chart 2: Flyash usage as % per te of PPC reduced by 113bps with CC ratio maintained YoY in FY19



Source: Company data, I-Sec research

Chart 3: Power consumption norms have improved by 1.6kwh/te YoY in FY19



Source: Company data, I-Sec research

Table 1: On track to increase capacity by >40% to 20mnte by 2020 at capex of Rs35bn

Location	State	Capacity (mnte)		Capex Rs mn	Commis- sioning Date
		Cement	Clinker		
Kolaghat	WB	1.0		4,250	Sep-19
Harshidaspur	Odisha	0.9		5,150	Oct-19
Vizag	AP	1.1		2,500	Mar-20
Jayanthipuram	AP		1.5	7,400	Sep-20
Kurnool	AP	1.0	2.3	16,000	Mar-21
Total	Total	4.0	3.8	35,300	

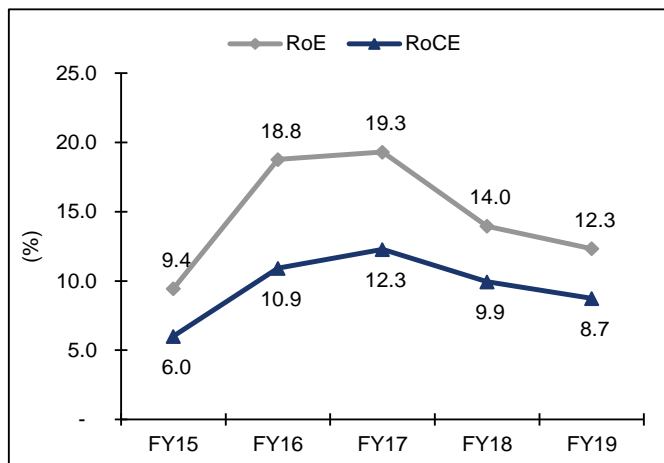
Source: Company data, I-Sec research

Table 2: Consolidated EBITDA to OCF conversion was lower at 74% owing to higher working capital

(Rs mn)	FY18	FY19	% YoY
OCF before w/cap changes	11,413	10,500	(8.0)
W/cap changes	1,559	(975)	NA
Taxes paid	(1,730)	(1,597)	(7.7)
OCF	11,242	7,929	(29.5)
EBITDA	10,997	10,664	(3.0)
EBITDA:OCF	102%	74%	
Interest	(666)	(481)	(27.7)
Other income	327	250	(23.6)
OCF post int/ OI	10,903	7,697	(29.4)
EBITDA:OCF	99%	72%	

Source: Company data, I-Sec research

Chart 4: Return ratios declined 100-200bps YoY on lower profitability and higher capex



Source: Company data, I-Sec research

Table 3: Historical quarterly analysis on per-tonne basis

(Rs/te)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Sales realisation - only cement	4,537	4,622	4,392	4,640	4,989
Raw materials	692	751	729	853	743
Power & fuel	980	956	987	893	984
Freight	1,123	1,095	1,015	1,050	1,040
Staff	314	340	296	250	327
Other expenditure	583	630	581	541	607
Total cost	3,692	3,772	3,608	3,587	3,701
Other operating income	58	12	11	9	52
EBITDA/te – cement*	903	862	795	1,062	1,340

Source: Company data, I-Sec research

Table 4: Per-tonne estimates

(Rs /te)	FY17	FY18	FY19E	FY20E	FY21E
Net realisations – cement	4,641	4,637	4,563	4,714	4,794
YoY (%)	(5.7)	(0.1)	(1.6)	3.3	1.7
Raw material consumed	822	806	761	790	802
Power and fuel	621	783	950	923	952
Freight	884	997	1,068	1,046	1,065
Others	1,000	984	903	884	850
Total operating expenses	3,328	3,570	3,682	3,644	3,669
YoY (%)	(5.7)	7.3	3.1	(1.0)	0.7
EBITDA/te incl. windmill	1,425	1,181	959	1,145	1,193
YoY (%)	(11.1)	(17.1)	(18.8)	19.5	4.2
EBITDA/te - cement only	1,383	1,129	921	1,107	1,158
YoY (%)	(9.0)	(18.3)	(18.4)	20.2	4.6

Source: Company data, I-Sec research

Table 5: Performance trend and assumptions

	FY17	FY18	FY19	FY20E	FY21E
Capacity	15,490	15,490	15,490	16,715	18,490
Capacity utilisation (%)	54	60	72	72	74
Sales	8,348	9,312	11,124	12,014	13,696
Growth (%)	16.0	11.5	19.5	8.0	14.0
Realisation (Rs/te)	4,641	4,637	4,563	4,714	4,794
Growth (%)	(5.7)	(0.1)	(1.6)	3.3	1.7

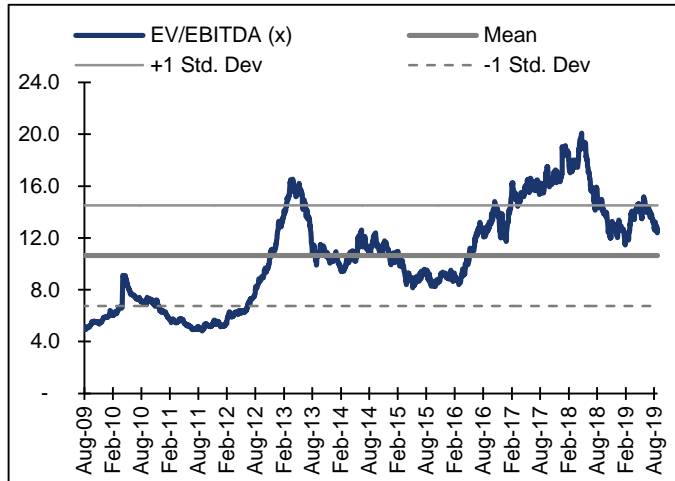
Source: Company data, I-Sec research

Table 6: Valuations based on 13x FY21E EV/E

(Rs.mn)	
Target EV/ EBITDA multiple (x)	13
Target EV (Rs mn)	215,974
Net debt / (cash) (Rs mn)	14,744
Target value (Rs mn)	201,230
No. of shares (mn)	236
Target price per share (Rs)	854

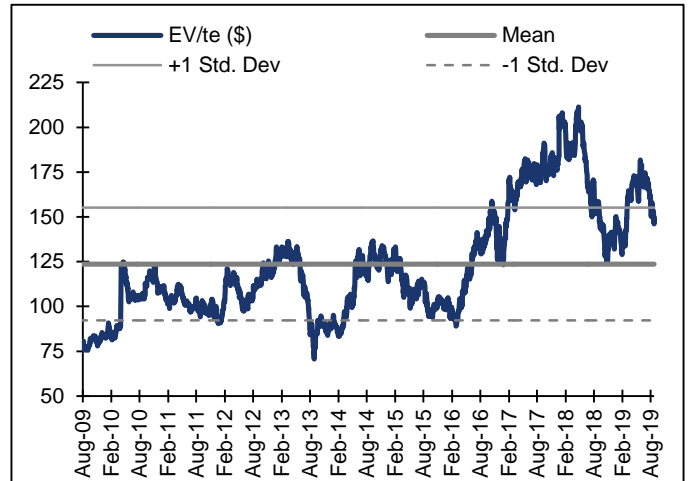
Source: I-Sec research

Chart 5: Rolling EV/EBITDA



Source: I-Sec research

Chart 6: Rolling EV/te



Financial summary (consolidated)

Table 7: Profit and loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Operating Income (Sales)	44,025	51,380	57,281	66,327
Other operating income	213	243	255	268
Operating Expenses	33,241	40,960	43,777	50,257
EBITDA	10,997	10,664	13,759	16,338
% margin	25.0	20.8	24.0	24.6
Depreciation & Amortisation	2,935	3,000	3,239	3,757
Gross Interest	600	514	860	1,174
Other Income	327	250	262	275
Recurring PBT	7,789	7,400	9,923	11,682
Add: Extraordinaries	124	(219)	-	-
Less: Taxes	2,311	2,106	2,778	3,271
- Current tax	2,010	1,854	2,778	3,271
- Deferred tax	301	253	-	-
Net Income (Reported)	5,638	5,107	7,177	8,445
Recurring Net Income	5,514	5,326	7,177	8,445

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Assets				
Total Current Assets	13,898	14,841	16,611	18,791
Current Liab. & Prov.	11,760	11,606	13,297	15,492
Net Current Assets	2,138	3,235	3,314	3,299
Investments of which	3,718	4,206	4,206	4,206
Strategic/Group	3,718	4,206	4,206	4,206
Marketable	-	-	-	-
Net Fixed Assets*	53,965	62,987	71,248	76,491
of which				
Capital Work-in-Progress	1,930	10,388	9,388	8,388
Goodwill	-	-	-	-
Total Assets	59,820	70,428	78,768	83,996
of which cash & cash equi.	1,199	948	1,396	1,922
Liabilities				
Borrowings	11,206	16,369	18,612	16,665
Deferred Tax Liability	7,532	8,642	8,642	8,642
Minority Interest	32	47	47	4
Equity Share Capital	236	236	236	236
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	40,815	45,134	51,232	58,406
Net Worth	41,051	45,370	51,467	58,642
Total Liabilities	59,820	70,428	78,768	83,996

Source: Company data, I-Sec research

Table 9: Quarterly trend

(Rs mn, year ending March 31)

	Sep-18	Dec-18	Mar-19	Jun-19
Net sales	11,806	12,074	15,293	13,698
% growth (YoY)	11.0	14.6	22.2	13.7
Recurring EBITDA	2,472	2,140	3,470	3,783
Margin (%)	20.9	17.7	22.7	27.6
Other income	59	66	111	82
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	1,145	1,011	1,873	2,110

Source: Company data

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Operating Cashflow	9,017	8,420	10,201	11,999
Working Capital changes	1,559	(975)	322	468
Capital Commitments	(4,945)	(12,025)	(11,500)	(9,000)
Net Operating FCF	5,631	(4,580)	(977)	3,467
Investing Activities	46	4	262	275
Issue of Share Capital	-	-	-	-
Buyback of shares	(1,681)	-	-	-
Inc(Dec) in Borrowings	(4,731)	7,863	2,243	(1,947)
Dividend paid	(852)	(853)	(1,080)	(1,270)
Others	-	-	(0)	(0)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	(1,587)	2,434	448	525

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY18	FY19	FY20E	FY21E
Per Share Data (Rs)				
EPS(Basic)	23.9	21.7	30.5	35.8
Diluted Recurring EPS	23.4	22.6	30.5	35.8
Diluted Recurring CEPS	35.9	35.3	44.2	51.8
Dividend per share	3.0	3.0	3.8	4.5
Book Value	174	193	218	249
Growth Ratios (% YoY)				
Operating Income	11.5	16.7	11.5	15.8
EBITDA	(7.5)	(3.0)	29.0	18.7
Recurring Net Income	(16.8)	(3.4)	34.8	17.7
Diluted Recurring EPS	(15.9)	(3.4)	34.8	17.7
Diluted Recurring CEPS	(8.1)	(1.5)	25.1	17.1
Valuation Ratios (x)				
P/E	30.8	31.9	23.7	20.1
P/CEPS	20.1	20.4	16.3	13.9
P/BV	4.1	3.7	3.3	2.9
EV / EBITDA	16.4	17.4	13.3	11.1
EV / te (US\$)	172	163	152	136
EV / Operating Income	4.1	3.6	3.3	2.8
EV / Operating FCF	17.9	29.0	17.8	14.8
Operating Ratios (%)				
Raw Material / Sales	17.0	16.5	16.6	16.6
Other expenses / Sales	58.5	63.2	59.8	59.2
Other Income / PBT	4.2	3.4	2.6	2.4
Effective Tax Rate	29.7	28.5	28.0	28.0
NWC / Total Assets	0.0	0.0	0.0	0.0
Inventory (x)	3.1	3.9	4.0	4.2
Receivables (days)	40	33	33	32
Payable (days)	29	23	24	24
D/E Ratio (x)	0.2	0.3	0.5	0.4
Profitability Ratios (%)				
Rec. Net Income Margins	12.4	10.3	12.5	12.7
RoCE	9.9	8.7	10.5	11.4
RoNW	14.0	12.3	14.8	15.3
Dividend Payout	12.8	13.3	12.5	12.5

Source: Company data, I-Sec research

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