

# The Ramco Cements Ltd.

Sensex: 22986

CMP: INR 367

Target: INR 460



Cement

Ramco continued to report impressive set of numbers backed by elevated price levels and improved operating efficiency. While topline improved by 3.3%, profitability improved by 5.1x driven by 2.6x improvement in cement EBIDTA/tonne. This was on the back of +9.2% surge in realizations coupled with 12.7% savings in operating costs/tonne. TRCL remains the best bet to play the cement demand recovery theme across South India. We continue to retain our "BUY" rating on the stock with a target of INR 460.

## Pricing discipline - the saving grace

+9.2% improvement in realisations (+1.2% QoQ) proved to be the only solace for Ramco as it reported volume de-growth (for the ninth consecutive quarter) of 5.2% YoY to 1.63 mt in Q3FY16 (-4.7% QoQ). This was largely attributable to sluggish demand in south India particularly Tamil Nadu owing to excessive rainfall (Mix - Tamil Nadu 38%, Kerala 26%, Andhra Pradesh 9% and Karnataka 11%). Improvement in realisations were driven by improved pricing scenario in the southern region on the back of strong pricing discipline being exercised by the players in the region.

## Improving efficiency + Realization growth = Surging EBIDTA/tn

Cement EBIDTA/tonne increased significantly by 2.6x YoY to INR 1460/tonne (+16.8% QoQ) owing to sharp improvement in realizations and appreciable improvement of 12.7% (-0.8% QoQ) in operating cost/tonne.

Power & Fuel front cost declined by 22.6% YoY (-10.9% sequentially) to INR 707/tonne owing to declining international coal prices. Freight expenses declined by 14.1% YoY to INR 905/tonne (-0.5% QoQ) driven by moderating diesel prices and increased off-take from newly commissioned grinding unit. Other expenses too declined sharply by 18.3% YoY & 17.9% QoQ to INR 619/tonne aided by reduction in packaging cost due to declining crude price.

## Windmill Segment - Muted performance

Windmill segment's revenues declined sharply by 39.9% YoY to INR 37 mn in Q3FY16 owing to frequent breaking down of wind

electric generators. Resultantly loss at EBIT level extended from INR 57 mn in Q3FY15 to INR 83 mn in Q3FY16.

## Capex plans over, debt reduction on anvil

Ramco after more than doubling its capacities over the last 5 years has completed most of its capex plans in last financial year. Debt levels are expected to decline by INR 7.3 bn (repaid INR 4.4 bn in 9MFY16) to INR 19.8 bn in FY17, led by improved profitability and strong operating cash flows. Ramco has also replaced higher cost term loans worth INR 5 bn (cost of 9.2%-10.0%) by raising debentures at an average rate of 8.6%. Net D/E is expected to steadily decline to 0.4x in FY17E vis-a-vis 1.0x in FY15. Subsequently, return ratios are expected to improve by more than 1.9x to +20% levels in FY17.

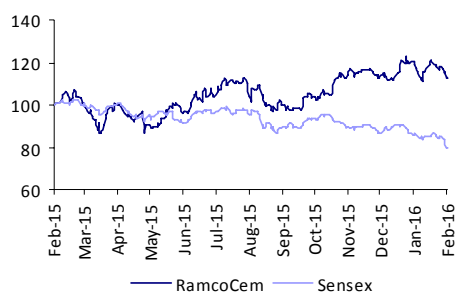
## Outlook & Valuation

Ramco remains one of our best mid cap bets to play to the cement demand recovery theme in South India. Superior operating profitability, dominant market share backed by strong brand recognition ensures buoyant growth prospects for the company. Having split grinding unit near to high consumption markets minimizes transportation costs and helps in timely servicing of the demand. Return ratios too are expected to improve as RCL has already completed majority of its capex plans.

**We retain our "BUY" rating on the stock with a target of INR 460 based on an average of 9x FY17 EV/EBIDTA & FY17 EV/tonne of INR 6900.**

Shareholding (%)	Dec-15
Promoters	42.30
FIIIs	11.62
DIIIs	23.46
Others	22.62

## Relative Price Performance



Key Data	
BSE Code	500260
NSE Code	RAMCOCEM
Bloomberg Code	TRCL IN
Reuters Code	TRCE.BO
Shares O/S (mn)	238.10
Face Value	1
Mcap (INR bn)	87.29
52 Week H/L	405.50/270.00
2W Avg. Qty, NSE	158706
Free Float (INR bn)	50.36
Beta	0.82

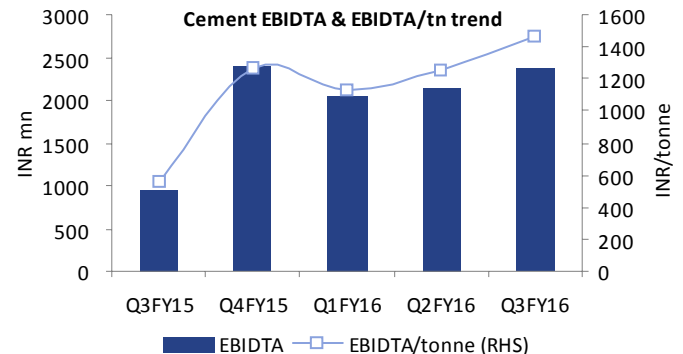
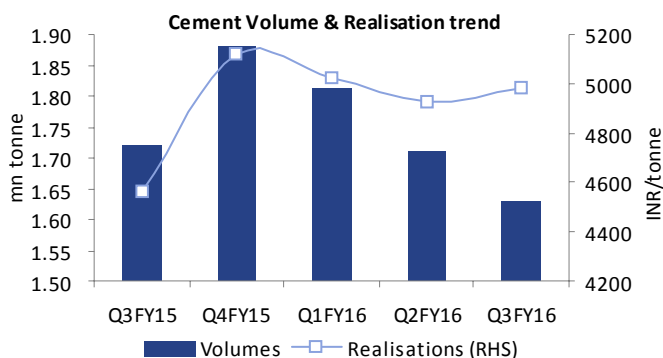
	INR mn	FY14	FY15	FY16E	FY17E
Net Sales		36835	36449	38295	43033
Growth		-3.84%	-1.05%	5.06%	12.37%
EBIDTA Margin		15.31%	19.59%	28.41%	29.95%
APAT		1230	2422	5308	6261
Growth		-69.59%	96.90%	119.11%	17.97%
EPS		5.17	10.17	22.29	26.30
P/E		41.58	29.92	16.45	13.94
P/BV		2.06	2.74	2.82	2.44
EV/EBIDTA		12.29	12.36	9.16	7.49
Net Debt-Equity Ratio		1.15	1.00	0.66	0.47
RoACE		6.58%	10.25%	16.66%	20.09%
RoAE		5.07%	9.45%	18.50%	18.77%

**Quarterly Financials**

Particulars (INR mn)	Q3FY16	Q2FY16	Q1FY16	Q4FY15	Q3FY15	YoY Chg	QoQ Chg	9MFY16	9MFY15	YoY Chg
<b>Net Sales</b>	<b>8119</b>	<b>8740</b>	<b>9225</b>	<b>9614</b>	<b>7861</b>	<b>3.27%</b>	<b>-7.12%</b>	<b>26084</b>	<b>26325</b>	<b>-0.91%</b>
Other Operating Income	91	174	284	357	298	-69.58%	-47.96%	549	941	-41.63%
Other Income	18	25	18	21	18	0.00%	-24.90%	61	61	0.66%
<b>Total Income</b>	<b>8228</b>	<b>8939</b>	<b>9527</b>	<b>9992</b>	<b>8178</b>	<b>0.61%</b>	<b>-7.96%</b>	<b>26694</b>	<b>27326</b>	<b>-2.31%</b>
Total Expenditure	5673	6005	6996	7228	6860	-17.31%	-5.53%	18673	22089	-15.46%
Raw Material Consumed	1398	1119	1830	1650	1604	-12.90%	24.92%	4346	5156	-15.70%
Employee Expenses	638	682	621	602	567	12.37%	-6.46%	1940	1685	15.14%
Power, Oil & Fuel	1153	1358	1457	1638	1572	-26.67%	-15.08%	3968	5402	-26.55%
Selling & Administrative Expenses	1475	1556	1830	1976	1812	-18.59%	-5.19%	4862	5982	-18.73%
Other Expenses	1009	1291	1257	1363	1304	-22.59%	-21.80%	3557	3864	-7.93%
<b>PBIDT</b>	<b>2555</b>	<b>2935</b>	<b>2532</b>	<b>2764</b>	<b>1317</b>	<b>93.94%</b>	<b>-12.94%</b>	<b>8021</b>	<b>5237</b>	<b>53.16%</b>
PBIDTM	30.90%	32.64%	26.43%	27.51%	15.92%	990 bps	621 bps	29.89%	18.99%	914 bps
Interest	418	453	488	473	485	-13.80%	-7.64%	1358	1465	-7.29%
<b>PBDT</b>	<b>2137</b>	<b>2482</b>	<b>2044</b>	<b>2291</b>	<b>833</b>	<b>156.68%</b>	<b>-13.90%</b>	<b>6663</b>	<b>3772</b>	<b>76.64%</b>
Depreciation	679	671	668	622	626	8.45%	1.18%	2018	1877	7.52%
<b>PBT</b>	<b>1458</b>	<b>1811</b>	<b>1377</b>	<b>1669</b>	<b>206</b>	<b>607.23%</b>	<b>-19.49%</b>	<b>4645</b>	<b>1895</b>	<b>145.10%</b>
Tax	280	423	402	735	(24)	1292.77%	33.78%	1105	406	172.40%
<b>APATM</b>	<b>1177</b>	<b>1387</b>	<b>975</b>	<b>934</b>	<b>230</b>	<b>412.76%</b>	<b>-15.13%</b>	<b>3539</b>	<b>1489</b>	<b>137.66%</b>
APATM	14.34%	15.56%	10.25%	9.37%	2.81%	613 bps	531 bps	13.29%	5.46%	623 bps
<b>EPS</b>	<b>4.94</b>	<b>5.83</b>	<b>4.10</b>	<b>3.93</b>	<b>0.96</b>	<b>412.55%</b>	<b>-15.17%</b>	<b>14.87</b>	<b>6.25</b>	<b>137.66%</b>
Equity	238	238	238	238	238	-	-	238	238	-

<b>Cement Operational Performance</b>										
Blended Volumes (mn tn)	1.63	1.71	1.81	1.88	1.72	-5.23%	-4.73%	5.15	5.24	-1.72%
Realisations (INR/tn)	4983	4926	5021	5121	4565	9.16%	1.15%	4978	4916	1.26%
EBIDTA/tonne (INR)	1460	1250	1135	1271	557	162.04%	16.80%	1276	983	29.80%



## Financials

### Income Statement

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
<b>Net Sales</b>	<b>36835</b>	<b>36449</b>	<b>38295</b>	<b>43033</b>
<i>Growth</i>	-3.84%	-1.05%	5.06%	12.37%
Cost of Goods Sold	6897	6805	6327	6973
Freight Expenses	8257	7958	7247	7987
Power & Fuel Cost	8324	7040	6025	6569
<b>Total Expenditure</b>	<b>31197</b>	<b>29309</b>	<b>27416</b>	<b>30144</b>
EBIDTA (without OI)	5639	7140	10879	12890
<i>Growth</i>	-43.97%	26.62%	52.37%	18.48%
<i>EBITDA Margin</i>	15.31%	19.59%	28.41%	29.95%
Depreciation	3063	2499	2812	2894
<b>EBIT</b>	<b>2576</b>	<b>4641</b>	<b>8067</b>	<b>9996</b>
<i>EBIT Margin</i>	6.99%	12.73%	21.07%	23.23%
Interest Expenses	1890	1945	1839	1454
Other Income	857	869	885	1000
<b>EBT</b>	<b>1543</b>	<b>3564</b>	<b>7113</b>	<b>9542</b>
Tax Expenses	166	1141	1806	3280
<b>PAT</b>	<b>1377</b>	<b>2424</b>	<b>5308</b>	<b>6261</b>
Exceptional/Extraordinary Items	147	1	0	0
<b>APAT</b>	<b>1230</b>	<b>2422</b>	<b>5308</b>	<b>6261</b>
<i>Growth</i>	-69.59%	96.90%	119.11%	17.97%
<i>APAT Margin</i>	3.34%	6.65%	13.86%	14.55%

### Key Ratios

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
<b>Per Share Data (INR)</b>				
Adjusted EPS	5.17	10.17	22.29	26.30
CEPS	18.92	25.09	32.72	38.60
DPS	1.00	1.50	3.00	5.00
BVPS	104.29	111.10	129.86	150.29
<b>Return Ratios</b>				
RoACE	6.58%	10.25%	16.66%	20.09%
RoAE	5.07%	9.45%	18.50%	18.77%
<b>Balance Sheet Ratios</b>				
Net Debt-Equity Ratio	1.15	1.00	0.66	0.47
Current Ratio	2.15	1.78	1.88	2.04
Interest Cover Ratio	1.82	2.83	4.87	7.56
<b>Efficiency Ratios</b>				
Total Asset Turnover	0.71	0.68	0.71	0.79
Inventory Days	75	75	75	75
Debtors Days	30	34	35	31
Creditors Days	19	27	26	25
<b>Valuations</b>				
P/E	41.58	29.92	16.45	13.94
P/BV	2.06	2.74	2.82	2.44
Dividend Yield	0.47%	0.49%	0.82%	1.36%
Market Cap / Sales	1.39	1.99	2.28	2.03
EV/EBIDTA	12.29	12.36	9.16	7.49

### Balance Sheet

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
<b>SOURCES OF FUNDS</b>				
Share Capital	238	238	238	238
Reserves	24583	26214	30682	35546
Total Networth	24821	26452	30921	35784
Total Debt	29102	27119	22977	19795
<b>Total Liabilities</b>	<b>53923</b>	<b>53571</b>	<b>53897</b>	<b>55579</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	46415	48755	48570	48082
Capital Work in Progress	3538	2627	2406	2555
Investments	2834	3558	3558	3558
Total Current Assets	15898	15763	16997	19468
Total Current Liabilities	7389	8861	9035	9521
Net Current Assets	8509	6901	7963	9947
Net Deferred Tax	(7374)	(8271)	(8599)	(8563)
<b>Total Assets</b>	<b>53923</b>	<b>53571</b>	<b>53897</b>	<b>55579</b>

### Cash Flow

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
EBT	1543	3564	7113	9542
Depreciation	3063	2499	2812	2894
Interest	1890	1945	1839	1454
Inc./Dec. in working capital	(1341)	1660	1069	(1381)
Tax paid	(323)	(88)	(2134)	(3244)
Other Income	(857)	(869)	(885)	(1000)
<b>Cash flow from operations (a)</b>	<b>3974</b>	<b>8712</b>	<b>9814</b>	<b>8264</b>
Inc./Dec. in investments	(176)	(724)	0	0
Change in Fixed Assets	(2466)	(5210)	(2627)	(2406)
Change in CWIP	(1968)	912	221	(150)
Others	70	70	75	75
<b>Cash flow from investing (b)</b>	<b>(4540)</b>	<b>(4953)</b>	<b>(2331)</b>	<b>(2480)</b>
Inc./Dec. in capital	0	0	0	0
Inc./Dec. in debts	2431	(1983)	(4142)	(3182)
Dividend paid	(238)	(358)	(714)	(1190)
Interest paid	(1890)	(1945)	(1839)	(1454)
Others	169	699	1104	645
<b>Cash flow from financing (c)</b>	<b>472</b>	<b>(3587)</b>	<b>(5590)</b>	<b>(5181)</b>
Opening cash balance	540	446	619	2512
<b>Cash Flow during the year (a+b+c)</b>	<b>(93)</b>	<b>172</b>	<b>1893</b>	<b>603</b>
Closing cash balance	446	619	2512	3114

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