# The Ramco Cements

| BSE SENSEX | S&P CNX |
|---|---|
| 28,095 | 8,636 |

## CMP: INR556 TP: INR625 (+12%) Buy



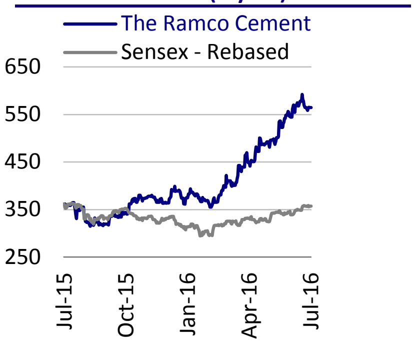
**Stock Info**

| | |
|---|---|
| Bloomberg | TRCL IN |
| Equity Shares (m) | 238.1 |
| 52-Week Range (INR) | 595/300 |
| 1, 6, 12 Rel. Per (%) | -4/31/54 |
| M.Cap. (INR b)/ (USD b) | 132.4/ 2.0 |
| Avg Val, (INR m) | 102 |
| Free float (%) | 57.7 |

**Financials Snapshot (INR b)**

| Y/E Mar | 2016 | 2017E | 2018E |
|---|---|---|---|
| Net Sales | 35.9 | 40.3 | 45.3 |
| EBITDA | 10.5 | 12.6 | 14.5 |
| Net Profit | 5.6 | 6.4 | 7.8 |
| EPS (INR) | 23.4 | 26.7 | 32.7 |
| EPS Gr.(%) | 130.3 | 13.8 | 22.4 |
| BV/Sh. (INR) | 129.9 | 153.1 | 181.1 |
| RoE (%) | 23.7 | 20.8 | 17.0 |
| RoCE (%) | 4.3 | 3.6 | 3.1 |
| P/E (x) | 19.5 | 18.9 | 19.5 |
| P/BV (x) | 13.2 | 13.8 | 15.3 |
| EV/EBITDA(x) | 14.5 | 11.7 | 9.6 |
| EV/Ton(USD) | 146 | 136 | 129 |

**Stock Performance (1-year)**




## Optimistic on near-term prospects of Cement sector

### Well poised to benefit from momentum in Indian economy

**We went through The Ramco Cement's (TRCL) annual report for FY16. Our key takeaways:**

- **The management is optimistic on long-term cement demand and expects the industry to grow 7-8% in FY17.**
- **During the first two quarters of FY16, the southern markets declined 12%. However, demand in AP and Telangana picked up in 2HFY16, leading to 8% growth. For FY16, the decline was 5%.**
- **FCF in FY16 was INR8.3b. With no immediate expansion plans, the visibility of deleveraging is strong. In FY16, TRCL reduced borrowings by INR5.1b, leading to net D/E of 0.7x versus 1x in FY15.**
- **FY16 saw cost moderation of 8%, led by lower power, fuel and freight costs, which was partially offset by higher limestone cost.**
- **TRCL commissioned the 6MW thermal power plant project at Ariyalur in 4QFY16. With this, the aggregate capacity of its thermal power plants has gone up from 157MW to 163MW.**
- **Capital efficiencies (RoIC/RoE) were up 6.1bp/10bp, largely driven by strong volume boost in the third and fourth quarters.**
- **TRCL offers a strong play on southern recovery due to (a) superior brand, (b) edge on cost efficiencies, aiding industry-leading profitability, and (c) visibility of deleveraging (started in FY16). The stock trades at an EV of 9.6x FY18E EBITDA and USD129/ton. We maintain Buy with a TP of INR625 (valuing the cement business at an EV of USD144/ton and 11x FY18E EBITDA) – 12% upside.**

### Positive on sectoral prospects, led by signs of recovery in 2HFY16

**Growth in FY16:** While all-India Cement industry growth was 4% in FY16 as against 6% in FY15, the southern states declined 5% due to lack of demand. Capacity utilization was just 55% in the southern states against 75% in the remaining part of the country. During the first two quarters of FY16, the southern markets de-grew 12%. From the third quarter, the southern markets began improving and de-growth for the full year was restricted to 5%. During the fourth quarter, the southern markets returned to the growth trajectory.

**Outlook:** The present government's policies are expected to give a big push to economic activity. The thrust given in the Union Budget 2016-17 for development of Roads & Highways, Ports, Flyovers & Bridges, Irrigation Schemes, Railway Projects, Smart Cities, etc should boost cement demand. Lower interest rates, moderate inflation, availability of loans for housing and tax benefits are expected to encourage investments in residential housing. With the bifurcation of Andhra Pradesh into Telangana and Andhra Pradesh, infrastructure activity in the region is likely to get a fillip. As a result, the Cement industry is expected to grow 7-8% in FY17. Average to above-average monsoon for the year would further help sustain growth. However, continued Rupee depreciation and oil price volatility could be concerning.

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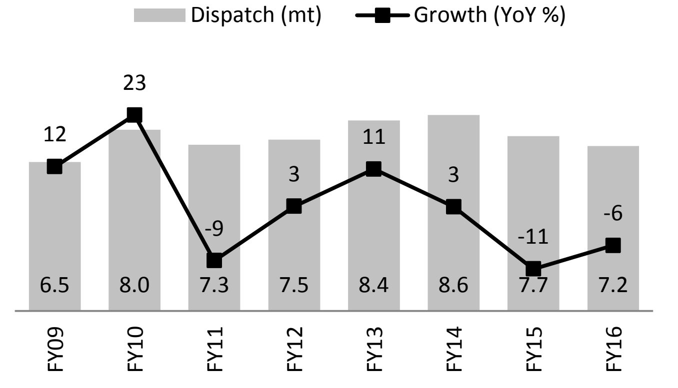
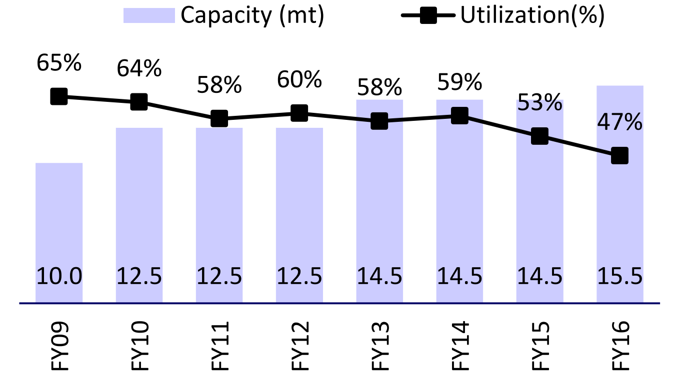
**Exhibit 1: Volume corroborated industry's de-growth**




Source: MOSL, Company

**Exhibit 2: Capacity utilization remained low**




Source: MOSL, Company

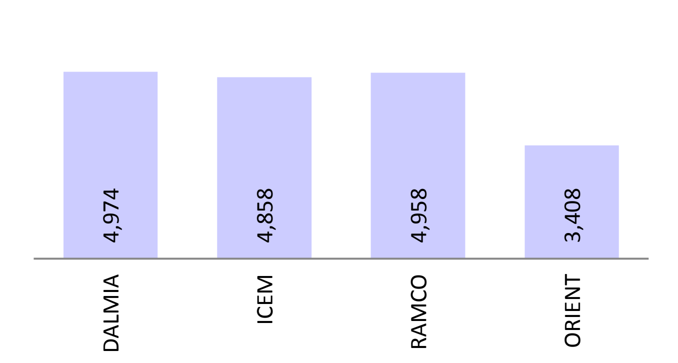
## One of the lowest cost cement producers

TRCL's cost/ton declined 8% in FY16, mainly led by the following:

1. Drop in power and fuel cost, as it raised its petcoke mix and crude prices fell internationally
2. Reduction in freight cost (-11%), as it increased the share of road transport in its logistics mix and diesel prices dropped by 15% in FY16
3. Lower reliance on imported limestone, as beneficiation resolved the quality issue that its mines had faced in FY14-15 (due to which it had to import limestone – INR800-1,200/ton costlier)

The moderation in cost helped offset the drop in realizations in 2HFY16.

**Exhibit 3: Cement realization (INR/ton) one of the highest among peers due to strong brand and retail mix**




Source: MOSL, Company

**Exhibit 4: TRCL regained its superior cost structure in FY16 (INR/ton)**

| | Ramco | Orient | ICEM | Dalmia |
|---|---|---|---|---|
| RM cost | 821 | 474 | 777 | 862 |
| Staff cost | 358 | 205 | 394 | 396 |
| Power and Fuel | 728 | 904 | 1,086 | 690 |
| Freight | 929 | 723 | 1,000 | 896 |
| Other expenses | 670 | 702 | 716 | 952 |

Source: MOSL, Company

## Power plant capacity to reach 175MW by FY17

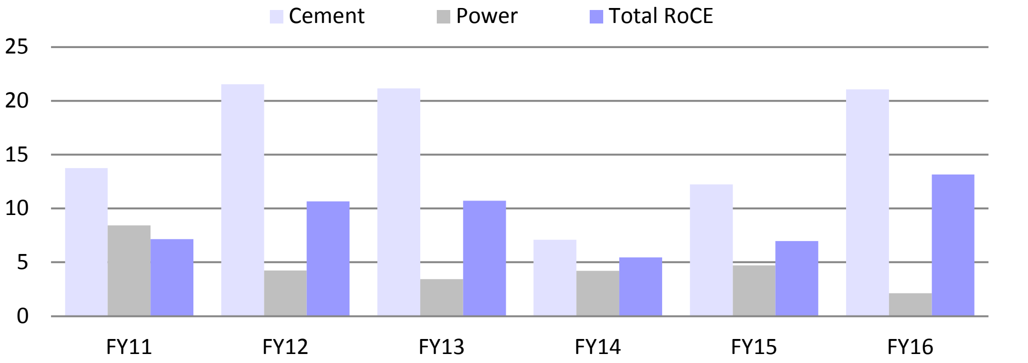
The 6MW project at Ariyalur was completed and commissioned in 4QFY16. With this, TRCL's aggregate thermal power capacity has gone up from 157MW to 163MW. Further, its 6MW projects at Alathiyur and Jayanthipuram would be commissioned in FY17. With the completion of these projects, TRCL's aggregate thermal power capacity would go up from 163MW to 175MW.

Due to lower demand, and consequently, lower production of cement in FY16, there was surplus capacity with the thermal power plants. In FY16, TRCL sold 241.7m units of thermal power, lower than 386.6m units in FY15. Lower realization coupled with decrease in units sold resulted in lower profits from power plant operations.

## Power from windmills continues to be a drag

The division generated 164.3m units in FY16 compared to 210.6m units in FY15. There was a delay in the onset of the wind season during the year. TRCL continued to face evacuation constraints imposed by TANGEDCO. There was frequent backing down of the wind electric generators by TANGEDCO. Because of the above factors, generation in FY16 was lower than in FY15. Income from the division was INR434m in FY16 as against INR534m in FY15.

**Exhibit 5: Power business a drag on return ratios (%)**



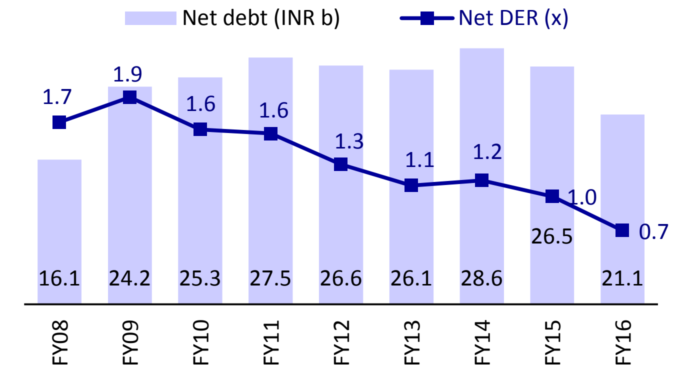

Source: Company, MOSL

## Visibility of deleveraging strongest among midcaps; capital efficiencies improved

Deleveraging has already started, with INR5.06b reduction in net debt over FY16 (INR21.1b, 0.7x), which also led to reduction in interest cost. With no immediate capex plan (barring 0.5mt of clinker de-bottlenecking), TRCL would generate INR7b-9b of annual FCFE over FY17-18, aiding further debt reduction ahead.

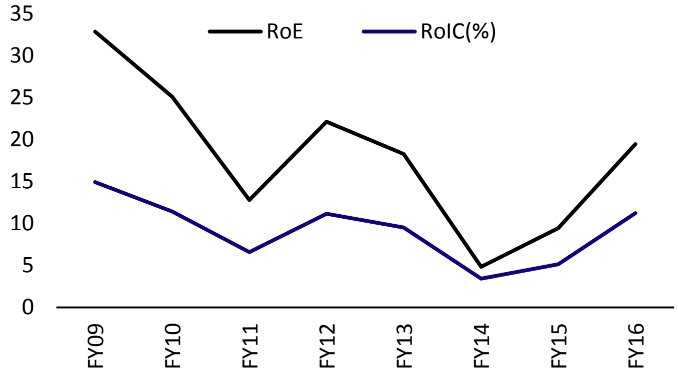
Capital efficiencies improved considerably in FY16, led by volume boost in 2HFY16. RoE/RoIC stood at 19.5%/11.2%, up 6.1bp/10bp YoY.

**Exhibit 6: Better visibility of deleveraging on account of strong OCF and limited capex plans**




Source: MOSL, Company

**Exhibit 7: Capital efficiencies (%) improved, led by strong recovery in cement demand**




Source: MOSL, Company

## Performance of subsidiary

TRCL has a subsidiary, Ramco Windfarms Limited (RWL), whose capital is INR10m. TRCL owns 71.5% of RWL, which has acquired six wind electric generators aggregating to 6.6MW capacity from Thanjavur Spinning Mill Limited. With this, RWL's installed capacity has increased to 39.835MW, comprising of 127 wind electric generators. It generated 22.7m units of power in FY16 compared to 27.9m units in FY15. Revenue was INR85.4m in FY16 against INR105.3m in FY15 and net profit was INR3m against INR13.5m.

## Valuation and view

TRCL offers a strong play on southern recovery, given (a) its superior brand, (b) capacity of 13m tons, (c) cost efficiencies, aiding industry-leading profitability, and (d) visibility of deleveraging (started in FY16).

We expect demand to sustain and pricing to gradually improve in 2HFY17. Slowing capacity additions and increasing consolidation in the industry would support long-term cement prices.

Our assumptions of 8% volume CAGR (early sign of southern recovery) and 3% price CAGR (already disciplined base) over FY16-18 would drive 14-15% EBITDA/PAT CAGR. The stock trades at an EV of 9.6x FY18E EBITDA and USD129/ton. We maintain **Buy,** with a target price of INR625 (valuing the Cement business at an EV of USD144/ton or 11x FY18E EBITDA) – 12% upside.

# Financials and Valuations

**Income Statement** (INR Million)

| Y/E Mar | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| **Net Sales** | **26,049** | **32,030** | **37,884** | **36,321** | **35,939** | **35,872** | **40,295** | **45,344** |
| Change (%) | -4.0 | 23.0 | 18.3 | -4.1 | -1.1 | -0.2 | 12.3 | 12.5 |
| **EBITDA** | **6,181** | **9,163** | **9,631** | **5,116** | **6,622** | **10,504** | **12,556** | **14,510** |
| EBITDA Margin (%) | 23.7 | 28.6 | 25.4 | 14.1 | 18.4 | 29.3 | 31.2 | 32.0 |
| Depreciation | 2,208 | 2,539 | 2,806 | 3,063 | 2,499 | 2,670 | 2,807 | 2,843 |
| **EBIT** | **3,973** | **6,624** | **6,825** | **2,054** | **4,123** | **7,834** | **9,749** | **11,667** |
| Interest | 1,399 | 1,585 | 1,785 | 1,881 | 1,938 | 1,802 | 1,598 | 1,336 |
| Other Income | 399 | 536 | 842 | 1,141 | 1,379 | 999 | 925 | 1,107 |
| Extraordinary items | -16 | -1 | -5 | 230 | 0 | 0 | 0 | 0 |
| **PBT** | **2,957** | **5,574** | **5,877** | **1,543** | **3,564** | **7,031** | **9,076** | **11,437** |
| Tax | 863 | 1,723 | 1,846 | 166 | 1,141 | 1,448 | 2,723 | 3,660 |
| Tax Rate (%) | 29.2 | 30.9 | 31.4 | 10.8 | 32.0 | 20.6 | 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** | **5,583** | **6,353** | **7,777** |
| **Adjusted PAT** | **2,105** | **3,852** | **4,035** | **1,172** | **2,423** | **5,583** | **6,353** | **7,777** |
| Change (%) | -40.5 | 83.0 | 4.8 | -71.0 | 106.8 | 130.4 | 13.8 | 22.4 |

**Balance Sheet** (INR Million)

| Y/E Mar | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| Share Capital | 238 | 238 | 238 | 238 | 238 | 238 | 238 | 238 |
| Reserves | 17,107 | 20,266 | 23,470 | 24,583 | 26,214 | 30,688 | 36,211 | 42,882 |
| **Net Worth** | **17,345** | **20,504** | **23,708** | **24,821** | **26,452** | **30,926** | **36,449** | **43,120** |
| Debt | 27,912 | 27,104 | 26,671 | 29,000 | 27,119 | 22,056 | 19,056 | 15,056 |
| Deferred Tax | 5,890 | 6,492 | 7,164 | 7,374 | 8,271 | 8,521 | 8,521 | 8,521 |
| **Total Capital Employed** | **51,147** | **54,100** | **57,542** | **61,195** | **61,841** | **61,503** | **64,026** | **66,697** |
| Gross Fixed Assets | 51,105 | 56,704 | 64,388 | 67,880 | 72,727 | 77,475 | 78,475 | 79,475 |
| Less: Acc Depreciation | 13,175 | 15,553 | 18,359 | 21,422 | 23,920 | 26,591 | 29,398 | 32,241 |
| **Net Fixed Assets** | **37,930** | **41,152** | **46,029** | **46,458** | **48,807** | **50,884** | **49,077** | **47,234** |
| Capital WIP | 5,457 | 5,276 | 1,480 | 3,495 | 2,575 | 1,000 | 2,000 | 3,000 |
| Investments | 2,673 | 2,665 | 2,658 | 2,834 | 3,558 | 3,654 | 3,654 | 3,654 |
| **Current Assets** | **10,988** | **11,491** | **14,547** | **15,899** | **15,763** | **16,081** | **19,046** | **22,876** |
| Inventory | 3,923 | 4,911 | 5,948 | 6,855 | 5,206 | 5,490 | 5,743 | 6,175 |
| Debtors | 1,751 | 2,079 | 3,028 | 3,040 | 3,802 | 4,685 | 4,594 | 4,596 |
| Cash & Bank | 400 | 475 | 536 | 447 | 618 | 908 | 2,966 | 5,643 |
| Loans & Adv, Others | 4,913 | 4,026 | 5,035 | 5,557 | 6,136 | 4,998 | 5,743 | 6,462 |
| **Curr Liabs & Provns** | **5,900** | **6,483** | **7,172** | **7,492** | **8,861** | **8,749** | **9,750** | **10,067** |
| Curr. Liabilities | 4,564 | 4,892 | 5,300 | 6,443 | 7,238 | 8,311 | 8,933 | 9,335 |
| Provisions | 1,335 | 1,591 | 1,873 | 1,049 | 1,623 | 438 | 817 | 732 |
| **Net Current Assets** | **5,088** | **5,008** | **7,375** | **8,407** | **6,901** | **7,332** | **9,296** | **12,809** |
| **Total Assets** | **51,147** | **54,100** | **57,542** | **61,195** | **61,841** | **62,869** | **64,026** | **66,697** |

E: MOSL Estimates

# Financials and Valuations

## Ratios

| Y/E Mar | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| **Basic (INR)** | | | | | | | | |
| **EPS** | **8.8** | **16.2** | **17.0** | **4.9** | **10.2** | **23.4** | **26.7** | **32.7** |
| Cash EPS | 18.1 | 26.9 | 28.7 | 17.8 | 20.7 | 34.7 | 38.5 | 44.6 |
| Book Value | 72.9 | 86.2 | 99.6 | 104.3 | 111.1 | 129.9 | 153.1 | 181.1 |
| DPS | 1.3 | 2.5 | 3.0 | 1.0 | 1.5 | 3.0 | 3.0 | 4.0 |
| Payout (incl. Div. Tax.) | 16.5 | 18.0 | 20.6 | 20.2 | 17.1 | 14.9 | 13.1 | 14.2 |
| **Valuation(x)** | | | | | | | | |
| P/E | | | | | 54.6 | 23.7 | 20.8 | 17.0 |
| Price / Book Value | | | | | 5.0 | 4.3 | 3.6 | 3.1 |
| EV/Sales | | | | | 4.3 | 4.3 | 3.6 | 3.1 |
| EV/EBITDA | | | | | 23.6 | 14.5 | 11.7 | 9.6 |
| EV/Ton (US$) | | | | | 160 | 146 | 136 | 129 |
| Dividend Yield (%) | | | | | 0.3 | 0.5 | 0.5 | 0.7 |
| **Profitability Ratios (%)** | | | | | | | | |
| RoE | 12.8 | 20.4 | 18.3 | 4.8 | 9.5 | 19.5 | 18.9 | 19.5 |
| RoCE | 7.2 | 10.7 | 10.7 | 5.5 | 7.0 | 13.2 | 13.8 | 15.3 |
| RoIC | 7.2 | 10.7 | 10.7 | 5.5 | 7.0 | 13.2 | 13.8 | 15.3 |
| **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 | 25 | 26 | 34 | 41 | 36 | 32 |
| Inventory (No. of Days) | 55 | 56 | 57 | 69 | 53 | 56 | 52 | 50 |
| **Leverage Ratios (%)** | | | | | | | | |
| Net Debt/Equity (x) | 1.6 | 1.3 | 1.1 | 1.2 | 1.0 | 0.7 | 0.4 | 0.2 |

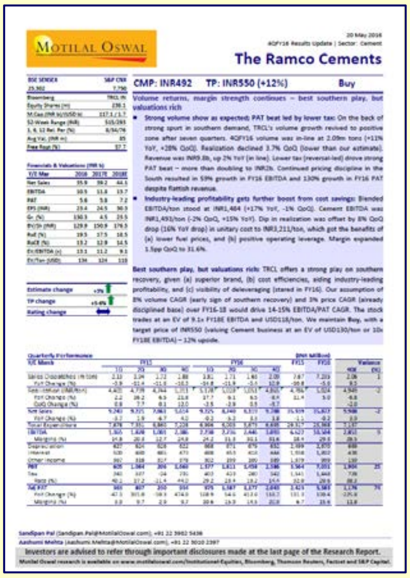
## Cash Flow Statement (INR Million)

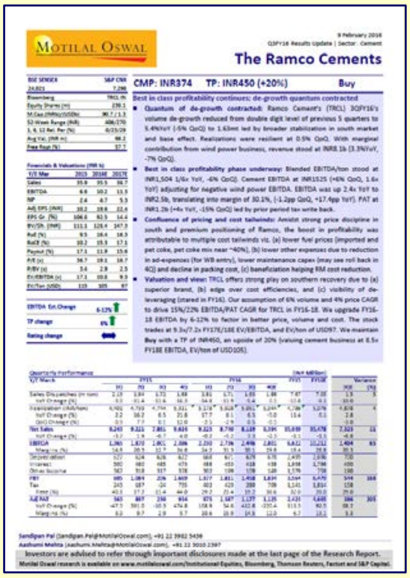
| Y/E Mar | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| Adjusted EBITDA | 6,181 | 9,163 | 9,631 | 5,116 | 6,622 | 10,504 | 12,556 | 14,510 |
| Non cash opr. exp (inc) | 399 | 536 | 842 | 1,141 | 1,379 | 999 | 925 | 1,107 |
| (Inc)/Dec in Wkg. Cap. | 850 | 155 | -2,306 | -1,121 | 1,299 | 1,603 | -1,273 | -837 |
| Tax Paid | -824 | -1,121 | -1,174 | 44 | -244 | -1,198 | -2,723 | -3,660 |
| 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** | **11,908** | **9,486** | **11,120** |
| (Inc)/Dec in FA & CWIP | -5,273 | -5,419 | -3,888 | -5,507 | -3,550 | -3,550 | -2,000 | -2,000 |
| **Free cash flows** | **1,312** | **3,152** | **3,101** | **-97** | **5,507** | **8,358** | **7,486** | **9,120** |
| (Pur)/Sale of Invt | -1,785 | 8 | 7 | -176 | -724 | -95 | 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** | **-3,645** | **-2,000** | **-2,000** |
| Inc/(Dec) in Net Worth | 16 | 0 | 2 | 15 | -378 | -278 | 0 | 0 |
| Inc / (Dec) in Debt | 2,247 | -808 | -434 | 2,330 | -1,881 | -5,063 | -3,000 | -4,000 |
| Interest Paid | -1,399 | -1,585 | -1,785 | -1,881 | -1,938 | -1,802 | -1,598 | -1,336 |
| Divd Paid (incl Tax) & Others | -346 | -692 | -830 | -279 | -415 | -830 | -830 | -1,107 |
| **CF from Fin. Activity** | **517** | **-3,084** | **-3,047** | **184** | **-4,612** | **-7,974** | **-5,428** | **-6,443** |
| **Inc/(Dec) in Cash** | **44** | **75** | **61** | **-89** | **171** | **289** | **2,058** | **2,677** |
| Add: Opening Balance | 356 | 400 | 475 | 536 | 447 | 618 | 908 | 2,966 |
| **Closing Balance** | **400** | **475** | **536** | **447** | **618** | **908** | **2,965** | **5,643** |

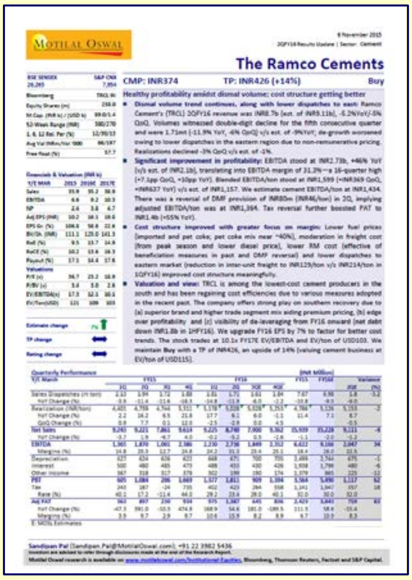
E: MOSL Estimates

# PRODUCT GALLERY

## Our recent reports on The Ramco Cements

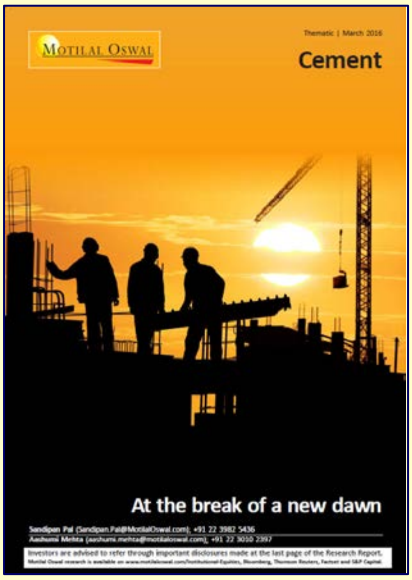


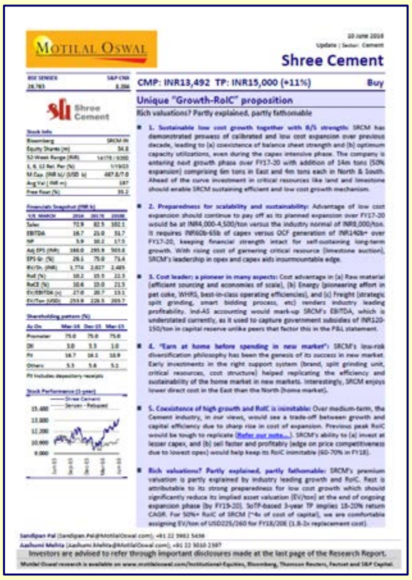



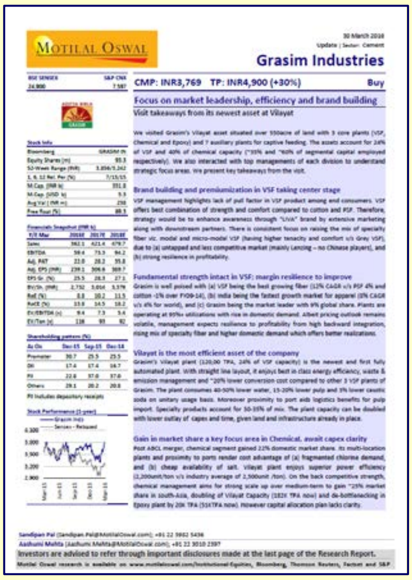

## Our recent reports on Cement Sector






## Our recent reports on other Cement companies

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