

June 22, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	HOLD		ACCUMULATE	
Target Price	600		630	
Sales (Rs. m)	49,321	56,442	49,039	56,407
% Chng.	0.6	0.1		
EBITDA (Rs. m)	12,406	12,841	12,271	12,993
% Chng.	1.1	(1.2)		
EPS (Rs.)	28.8	26.6	26.4	26.9
% Chng.	8.9	(0.9)		

Key Financials - Standalone

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. m)	50,602	52,854	49,321	56,442
EBITDA (Rs. m)	9,747	10,739	12,406	12,841
Margin (%)	19.3	20.3	25.2	22.8
PAT (Rs. m)	5,371	6,248	6,784	6,272
EPS (Rs.)	22.8	26.5	28.8	26.6
Gr. (%)	(4.6)	16.3	8.6	(7.5)
DPS (Rs.)	3.0	2.5	3.0	3.0
Yield (%)	0.5	0.4	0.5	0.5
RoE (%)	12.6	13.3	12.9	10.7
RoCE (%)	12.0	10.8	11.0	9.8
EV/Sales (x)	3.3	3.4	3.6	3.2
EV/EBITDA (x)	17.2	16.9	14.5	13.9
PE (x)	28.3	24.3	22.4	24.2
P/BV (x)	3.4	3.1	2.7	2.5

Key Data

TRCE.BO | TRCL IN

52-W High / Low	Rs.884 / Rs.455
Sensex / Nifty	34,732 / 10,244
Market Cap	Rs.152bn/ \$ 1,994m
Shares Outstanding	236m
3M Avg. Daily Value	Rs.896.98m

Shareholding Pattern (%)

Promoter's	42.66
Foreign	8.91
Domestic Institution	24.45
Public & Others	23.98
Promoter Pledge (Rs bn)	1.23

Stock Performance (%)

	1M	6M	12M
Absolute	18.6	(15.7)	(18.4)
Relative	3.1	1.2	(8.1)

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Earnings in line; Downgrade on high debt and stretched valuations

Quick Pointers:

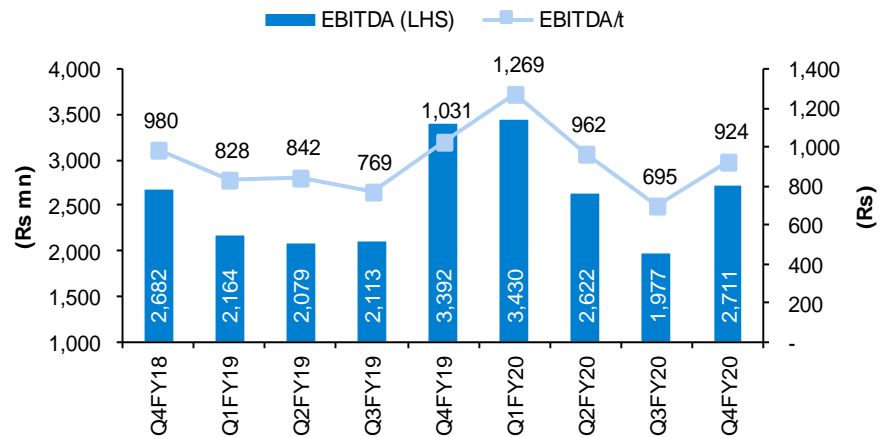
- Debt increased 13% QoQ/87% YoY at Rs30.2bn
- Commissioning schedule of Odisha/AP units delayed by five/three months.

The Ramco Cements (TRCL) posted Q4FY20 EBITDA in line with ours and above consensus estimates by 9%. PAT came above our estimates due to lower tax rate. However, we were disappointed with sharp increase in debt. TRCL spent Rs31bn on capex over last couple of years towards the ongoing expansion of Rs35bn. In spite of sizeable spending in FY19 and FY20, capex of Rs13.8bn is left for spending on the ongoing expansion. This suggests steep cost over-run in ongoing capex and an abnormal run-rate of capex on sustenance and infrastructure creation.

We continue to remain negative on Southern region due to overcapacity as well as challenging demand outlook. Admittedly, margins are expected to be strong in Q1FY20e due to sharp price increase. However, volumes would be equally weak due to extended lockdown in Tamil Nadu and severe shortage of labor in rest of states. Putting near time aside, we believe that TRCL's earnings profile would continue to deteriorate with increasing exposure to low margin and volatile markets of AP/Telangana and East regions. Driven by expensive valuations and deteriorating B/S, we downgrade stock to HOLD with TP of Rs600 (earlier TP of Rs630) with EV/EBITDA of 13x FY22e.

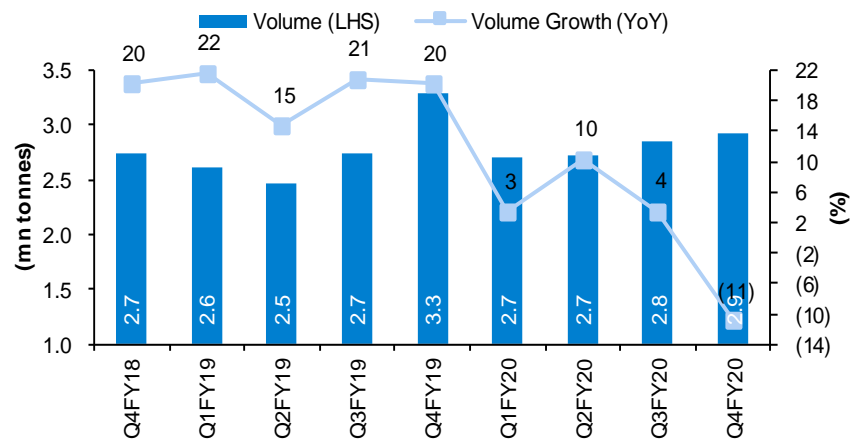
- Pressure on all counts:** Cement volumes fell 11% YoY at 2.9mnt (PLe:3.0mnt). Realisations grew 5%/Rs237/t QoQ (+1.6%/Rs73/t YoY) at Rs4,713 (PLe:4,520). Due to higher advertisement and sales promotion expenses (A&SP), total cost/t rose 5%/Rs180 YoY at Rs3,790 (PLe:Rs3,630). The sharp increase in A&SP expenses came as a negative surprise given the delay in commissioning of capacity expansions and lower volumes. A&SP expenses increased 64% YoY/36% QoQ at RsRs220/t. Hence, EBITDA/t came at Rs924 (PLe:Rs890), down 10% YoY. Impacted by hit on both volumes and margins, EBITDA fell 20% YoY at Rs2.71bn (PLe:Rs2.7bn). Marred by sharp increase in interest cost (+68% YoY), PBT fell 30% YoY at Rs1.86bn (PLe:Rs1.78bn). Partially offset by lower tax rate at 18.5% (PLe: 27.5%), PAT fell 19% YoY at Rs1.5bn (PLe:Rs1.3bn).
- Continuous delay in commissioning of expansion projects:** 1) Commissioned brown field expansion of 1.1mnt grinding unit (GU) at Vizag in Mar'20 2) 0.9mnt GU at Odisha/1.5mnt (clinker unit) at Jayanthipuram (AP) delayed by 5-months/3-months with revised schedule of Aug-2020/Mar-2021 3) Greenfield plant at Kurnool with 2.25mnt clinker capacity and 1mnt GU is on schedule for commissioning by Mar-2021 4) Post completion of these projects, TRCL's cement capacity would increase to 21mnt from existing 19mnt.

Exhibit 1: Q4FY20 EBITDA/t fell 10% YoY



Source: Company, PL

Exhibit 2: Volume growth impacted due to weak demand and Covid-19



Source: Company, PL

Exhibit 3: Q4FY20 Result Overview

Y/e March (Rs mn)	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	13,817	15,265	(9.5)	12,728	52,854	50,602	4.4
Raw Material	2,361	2,805	(15.8)	2,371	8,738	8,469	3.2
<i>% of Net Sales</i>	<i>17.1</i>	<i>18.4</i>		<i>18.6</i>	<i>16.5</i>	<i>16.7</i>	
Staff Costs	846	823	2.7	966	3,669	3,295	11.4
<i>% of Net Sales</i>	<i>6.1</i>	<i>5.4</i>		<i>7.6</i>	<i>6.9</i>	<i>6.5</i>	
Power & Fuel	2,544	2,938	(13.4)	2,592	10,509	10,573	(0.6)
<i>% of Net Sales</i>	<i>18.4</i>	<i>19.2</i>		<i>20.4</i>	<i>19.9</i>	<i>20.9</i>	
Freight and selling expenses	3,039	3,454	(12.0)	2,831	11,379	11,880	(4.2)
<i>% of Net Sales</i>	<i>22.0</i>	<i>22.6</i>		<i>22.2</i>	<i>21.5</i>	<i>23.5</i>	
Other Expenses	2,317	1,853	25.0	1,992	7,821	6,639	17.8
<i>% of Net Sales</i>	<i>16.8</i>	<i>12.1</i>		<i>15.6</i>	<i>14.8</i>	<i>13.1</i>	
Total Expenditure	11,107	11,873	(6.5)	10,751	42,115	40,855	3.1
EBITDA	2,711	3,392	(20.1)	1,977	10,739	9,747	10.2
<i>Margin (%)</i>	<i>19.6</i>	<i>22.2</i>		<i>15.5</i>	<i>20.3</i>	<i>19.3</i>	
Depreciation	833	767	8.6	797	3,153	2,985	5.6
Other income	195	170	15.2	137	1,202	1,145	5.0
EBIT	2,073	2,795	(25.8)	1,316	8,788	7,907	11.2
Interest	216	128	68.4	215	714	509	40.3
PBT	1,857	2,667	(30.3)	1,101	8,075	7,398	9.2
Extraordinary income/(expense)	-	(200)		-	(203)	(242)	
PBT (After EO)	1,857	2,467	(24.7)	1,101	7,872	7,156	10.0
Tax	393	735	(46.5)	646	1,861	2,097	(11.2)
<i>% PBT</i>	<i>21.2</i>	<i>29.8</i>		<i>58.6</i>	<i>23.6</i>	<i>29.3</i>	
Reported PAT	1,464	1,732	(15.5)	456	6,011	5,059	18.8
Adjusted PAT	1,514	1,868	(19.0)	992	6,248	5,303	17.8

Source: Company, PL

Exhibit 4: Key Operating Metrics

Y/e March (Rs mn)	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Volume (mn te)-Cement	2.9	3.3	(10.9)	2.8	11.2	11.1	0.7
Cement Realisations (Rs/te)	4,713	4,640	1.6	4,475	4,718	4,551	3.7
Cement EBITDA/ te (Rs/te)	924	1,031	(10.3)	695	959	877	9.4

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	50,602	52,854	49,321	56,442
YoY gr. (%)	17.2	4.4	(6.7)	14.4
Cost of Goods Sold	8,367	8,738	7,806	9,356
Gross Profit	42,235	44,117	41,515	47,086
Margin (%)	83.5	83.5	84.2	83.4
Employee Cost	3,295	3,669	3,963	4,280
Other Expenses	6,740	7,821	6,859	7,872
EBITDA	9,747	10,739	12,406	12,841
YoY gr. (%)	(3.6)	10.2	15.5	3.5
Margin (%)	19.3	20.3	25.2	22.8
Depreciation and Amortization	2,985	3,153	3,409	4,322
EBIT	6,762	7,586	8,997	8,519
Margin (%)	13.4	14.4	18.2	15.1
Net Interest	509	714	923	1,160
Other Income	1,145	1,202	1,282	1,292
Profit Before Tax	7,156	7,872	9,357	8,651
Margin (%)	14.1	14.9	19.0	15.3
Total Tax	2,097	1,861	2,573	2,379
Effective tax rate (%)	29.3	23.6	27.5	27.5
Profit after tax	5,059	6,011	6,784	6,272
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,371	6,248	6,784	6,272
YoY gr. (%)	(4.6)	16.3	8.6	(7.5)
Margin (%)	10.6	11.8	13.8	11.1
Extra Ord. Income / (Exp)	(312)	-	-	-
Reported PAT	5,059	6,011	6,784	6,272
YoY gr. (%)	(9.0)	18.8	12.9	(7.5)
Margin (%)	10.0	11.4	13.8	11.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,059	6,011	6,784	6,272
Equity Shares O/s (m)	236	236	236	236
EPS (Rs)	22.8	26.5	28.8	26.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	87,466	97,130	1,11,816	1,32,516
Tangibles	87,466	97,130	1,11,816	1,32,516
Intangibles	-	-	-	-
Acc: Dep / Amortization	33,707	36,859	40,268	44,590
Tangibles	33,707	36,859	40,268	44,590
Intangibles	-	-	-	-
Net fixed assets	53,759	60,271	71,548	87,926
Tangibles	53,759	60,271	71,548	87,926
Intangibles	-	-	-	-
Capital Work In Progress	10,606	18,404	15,392	3,727
Goodwill	-	-	-	-
Non-Current Investments	2,264	2,676	2,701	2,715
Net Deferred tax assets	(8,704)	(9,172)	(10,109)	(10,974)
Other Non-Current Assets	694	3,440	694	694
Current Assets				
Investments	-	-	-	-
Inventories	5,597	6,453	6,081	6,959
Trade receivables	4,900	5,269	5,000	5,722
Cash & Bank Balance	928	914	1,181	1,116
Other Current Assets	1,127	1,722	1,599	1,458
Total Assets	81,082	1,00,470	1,05,602	1,11,966
Equity				
Equity Share Capital	236	236	236	236
Other Equity	44,366	48,950	55,598	61,162
Total Network	44,601	49,186	55,833	61,398
Non-Current Liabilities				
Long Term borrowings	16,187	30,244	28,687	27,187
Provisions	157	240	157	157
Other non current liabilities	131	128	131	131
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,572	3,414	2,703	3,093
Other current liabilities	8,730	8,005	7,984	9,027
Total Equity & Liabilities	81,082	1,00,470	1,05,603	1,11,966

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	7,156	7,872	9,357	8,651
Add. Depreciation	2,985	3,153	3,409	4,322
Add. Interest	509	714	923	1,160
Less Financial Other Income	1,145	1,202	1,282	1,292
Add. Other	(232)	(41)	(254)	(270)
Op. profit before WC changes	10,418	11,697	13,434	13,863
Net Changes-WC	(929)	(2,921)	578	(281)
Direct tax	(1,584)	(1,376)	(1,637)	(1,514)
Net cash from Op. activities	7,904	7,400	12,375	12,067
Capital expenditures	(12,018)	(19,193)	(9,945)	(9,035)
Interest / Dividend Income	112	152	145	156
Others	35	(433)	109	115
Net Cash from Inv. activities	(11,871)	(19,475)	(9,691)	(8,765)
Issue of share cap. / premium	-	-	-	-
Debt changes	7,755	14,270	(1,500)	(1,500)
Dividend paid	(853)	(1,564)	-	(707)
Interest paid	(476)	(580)	(923)	(1,160)
Others	-	-	-	-
Net cash from Fin. activities	6,426	12,127	(2,423)	(3,367)
Net change in cash	2,459	52	261	(65)
Free Cash Flow	7,904	7,400	12,375	12,067

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	13,486	12,824	12,728	13,817
YoY gr. (%)	13.7	12.4	5.5	(9.5)
Raw Material Expenses	2,009	1,997	2,371	2,361
Gross Profit	11,477	10,827	10,357	11,456
Margin (%)	85.1	84.4	81.4	82.9
EBITDA	3,430	2,622	1,977	2,711
YoY gr. (%)	58.5	26.1	(6.4)	(20.1)
Margin (%)	25.4	20.4	15.5	19.6
Depreciation / Depletion	758	765	797	833
EBIT	2,672	1,856	1,180	1,878
Margin (%)	19.8	14.5	9.3	13.6
Net Interest	135	147	215	216
Other Income	435	435	137	195
Profit before Tax	2,972	2,144	1,101	1,857
Margin (%)	22.0	16.7	8.7	13.4
Total Tax	862	450	153	396
Effective tax rate (%)	29.0	21.0	13.9	21.3
Profit after Tax	2,110	1,694	948	1,462
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,051	1,692	992	1,514
YoY gr. (%)	64.1	45.2	(2.8)	(19.0)
Margin (%)	15.2	13.2	7.8	11.0
Extra Ord. Income / (Exp)	(131)	(10)	(44)	(52)
Reported PAT	1,920	1,682	948	1,462
YoY gr. (%)	53.6	46.9	(6.2)	(11.6)
Margin (%)	14.2	13.1	7.4	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,920	1,682	948	1,462
Avg. Shares O/s (m)	238	238	238	238
EPS (Rs)	8.6	7.1	4.2	6.4

Source: Company Data, PL Research

Key Financial Metrics

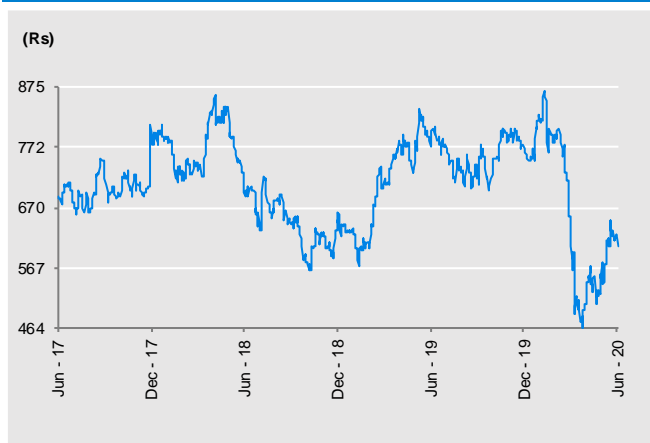
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	22.8	26.5	28.8	26.6
CEPS	35.5	39.9	43.3	45.0
BVPS	189.3	208.8	237.0	260.6
FCF	33.5	31.4	52.5	51.2
DPS	3.0	2.5	3.0	3.0
Return Ratio(%)				
RoCE	12.0	10.8	11.0	9.8
ROIC	8.7	8.4	8.1	7.2
RoE	12.6	13.3	12.9	10.7
Balance Sheet				
Net Debt : Equity (x)	0.3	0.6	0.5	0.4
Net Working Capital (Days)	57	57	62	62
Valuation(x)				
PER	28.3	24.3	22.4	24.2
P/B	3.4	3.1	2.7	2.5
P/CEPS	18.2	16.2	14.9	14.3
EV/EBITDA	17.2	16.9	14.5	13.9
EV/Sales	3.3	3.4	3.6	3.2
Dividend Yield (%)	0.5	0.4	0.5	0.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Volume (mn te)-Cement	11	11	10	12
Cement Realisations-Cement (Rs/te)	4,549	4,718	5,003	4,852
Cement EBITDA (Rs/te)	876	959	1,258	1,104
Raw material cost (Rs/te)	752	780	792	804
Power & Fuel cost (Rs/te)	950	938	839	863
Freight cost (Rs/te)	1,068	1,016	1,016	1,036

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Jun-20	Accumulate	630	603
2	29-Jan-20	Reduce	725	810
3	03-Jan-20	Hold	780	761
4	30-Oct-19	Hold	780	776
5	03-Oct-19	Hold	750	719
6	08-Aug-19	Hold	750	738
7	04-Jul-19	Hold	820	790

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,435	1,250
2	Ambuja Cement	BUY	210	192
3	Coal India	Accumulate	195	149
4	Heidelberg Cement India	Accumulate	185	172
5	Hindalco Industries	BUY	175	146
6	Hindustan Zinc	Accumulate	195	169
7	Jindal Steel & Power	BUY	150	109
8	JK Lakshmi Cement	BUY	350	238
9	JSW Steel	Reduce	140	166
10	NMDC	Accumulate	98	85
11	Shree Cement	Hold	18,330	22,117
12	Steel Authority of India	Reduce	25	28
13	Tata Steel	Reduce	242	293
14	The Ramco Cements	Accumulate	630	603
15	Ultratech Cement	BUY	4,375	3,745

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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