

The Ramco Cements Ltd.

Sensex: 25611

CMP: INR 380

Target: INR 447



Cement

Ramco continued to report impressive set of numbers backed by elevated price levels and improved operating efficiency. While topline declined by 5.2%, profitability improved by 54.6% driven by 60.3% improvement in cement EBIDTA/tonne. This was on the back of +7.4% surge in realizations coupled with 7.2% 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 revised target of INR 447 (previous target INR 421).

Improving realisations aiding growth

+7.4% improvement in realisations (-1.9% QoQ) proved to be the only solace for Ramco's topline as it continued to reported double digit volume de-growth (for the fifth consecutive quarter) of 11.9% YoY to 1.71 mt in Q2FY16 (-5.6% QoQ). This was largely attributable to sluggish demand in south India (Mix - Tamil Nadu 38%, Kerala 26%, Andhra Pradesh 9% and Karnataka 11%). Improvement in realisations was 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 60.3% YoY to INR 1250/tonne (+10.1% QoQ) owing to sharp improvement in realizations and appreciable improvement of 7.2% (-9.0% QoQ) in operating cost/tonne.

COGS declined by 22.3% YoY to INR 654/tonne owing to reversal of DMF provision of INR 80 mn. Power & Fuel cost declined by 16.7% YoY (-1.3% sequentially) to INR 794/tonne owing to declining international coal prices and increased pet coke usage (40%).

Freight expenses declined sequentially by 9.9% to INR 909/tonne (-12.8% YoY) driven by moderating diesel prices, off-season rebates from railways and increased off-take from newly commissioned grinding unit.

Windmill Segment - Muted performance

Windmill segment's revenues declined marginally by 4.5% YoY to INR 354 mn in Q2FY16 owing to frequent breaking down of wind electric generators and delay in onset of wind season. Resultantly EBIT declined by 8.1% to INR 234 mn during the same period.

Capex plans almost over

Ramco after more than doubling its capacities to 16.5 mt over the last 8 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 1.8 bn in H1FY16) to INR 19.8 bn by FY17 end, led by improved profitability and strong operating cash flows. 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.

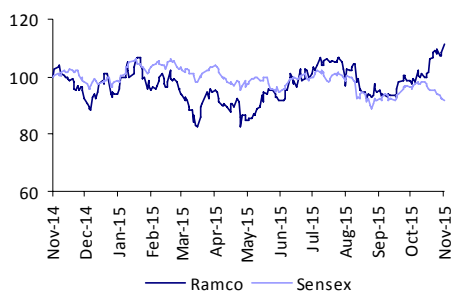
Outlook & Valuation

Ramco remains one of our best mid cap bets to play 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 factor in depressed cement demand and elevated price levels in Ramco's key markets and retain our "BUY" rating on the stock with a revised target of INR 447 (previous target INR 421) based on an average of 9x FY17 EV/EBIDTA & FY17 EV/tonne of INR 6900.

Shareholding (%)	Sep-15
Promoters	42.30
FII's	13.74
DII's	21.13
Others	22.83

Relative Prince 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)	90.47
52 Week H/L	383.35/270.00
2W Avg. Qty, NSE	110505
Free Float (INR bn)	52.20
Beta	0.90

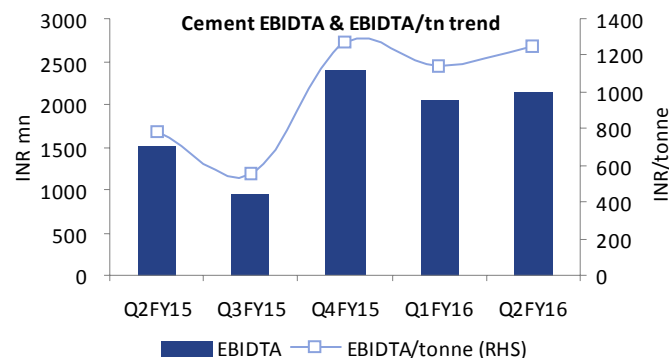
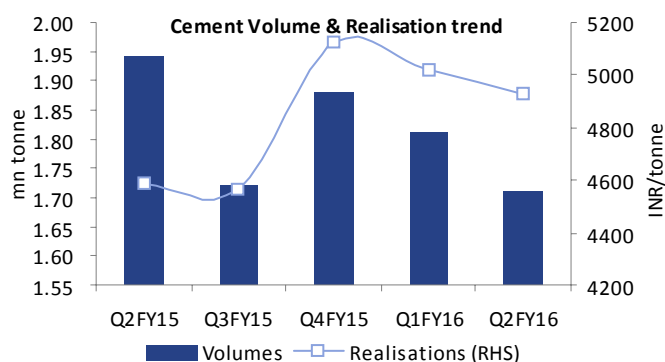
	INR mn	FY14	FY15	FY16E	FY17E
Net Sales		36835	36449	38295	43033
Growth (%)		-3.84%	-1.05%	5.06%	12.37%
EBIDTA Margin (%)		15.31%	19.59%	28.41%	29.95%
APAT		1230	2422	5308	6261
Growth (%)		-69.59%	96.90%	119.11%	17.97%
EPS		5.17	10.17	22.29	26.30
P/E		41.58	29.92	17.04	14.45
P/BV		2.06	2.74	2.93	2.53
EV/EBIDTA		12.29	12.36	9.43	7.71
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)	Q2FY16	Q1FY16	Q4FY15	Q3FY15	Q2FY15	YoY Chg	QoQ Chg	H1FY16	H1FY15	YoY Chg
Net Sales	8740	9225	9614	7861	9221	-5.21%	-5.25%	17966	18463	-2.70%
Other Operating Income	174	284	357	298	294	-40.61%	-38.63%	458	642	-28.66%
Other Income	25	18	21	18	24	2.08%	34.62%	43	42	0.95%
Total Income	8939	9527	9992	8178	9538	-6.28%	-6.17%	18467	19148	-3.56%
Total Expenditure	6005	6996	7228	6860	7351	-18.31%	-14.16%	13000	15228	-14.63%
Cost of goods sold	1119	1830	1650	1604	1635	-31.57%	-38.88%	2949	3552	-16.97%
Employee Expenses	682	621	602	567	534	27.57%	9.81%	1302	1117	16.54%
Power, Oil & Fuel	1358	1457	1638	1572	1852	-26.69%	-6.83%	2815	3830	-26.50%
Selling & Administrative Expenses	1556	1830	1976	1812	2027	-23.25%	-14.99%	3386	4170	-18.79%
Other Expenses	1291	1257	1363	1304	1303	-0.91%	2.68%	2548	2560	-0.46%
PBIDT	2935	2532	2764	1317	2187	34.15%	15.91%	5466	3920	39.46%
PBIDTM	32.64%	26.43%	27.51%	15.92%	22.74%	990 bps	621 bps	29.44%	20.29%	914 bps
Interest	453	488	473	485	480	-5.69%	-7.16%	940	980	-4.07%
PBDT	2482	2044	2291	833	1708	45.35%	21.41%	4526	2940	53.97%
Depreciation	671	668	622	626	624	7.61%	0.57%	1339	1251	7.06%
PBT	1811	1377	1669	206	1084	67.08%	31.51%	3187	1689	88.70%
Tax	423	402	735	(24)	187	-126.97%	-5.35%	825	429	92.20%
Net Profit	1387	975	934	230	897	54.63%	42.29%	2362	1260	87.51%
APATM	15.56%	10.25%	9.37%	2.81%	9.43%	613 bps	531 bps	12.82%	6.59%	623 bps
EPS	5.83	4.10	3.93	0.96	3.77	54.57%	42.23%	9.92	5.29	87.51%
Equity	238	238	238	238	238	-	-	238	238	-

Cement Operational Performance

Particulars (mn tn)	Q2FY16	Q1FY16	Q4FY15	Q3FY15	Q2FY15	YoY Chg	QoQ Chg	H1FY16	H1FY15	YoY Chg
Blended Volumes (mn tn)	1.71	1.81	1.88	1.72	1.94	-11.94%	-5.63%	3.52	4.07	-13.42%
Realisations (INR/tn)	4926	5021	5121	4565	4588	7.37%	-1.89%	4975	4404	12.96%
EBIDTA/tonne (INR)	1250	1135	1271	557	780	60.26%	10.13%	1190	648	83.59%



Financials

Income Statement

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
Net Sales	36835	36449	38295	43033
<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
Total Expenditure	31197	29309	27416	30144
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
EBIT	2576	4641	8067	9996
<i>EBIT Margin %</i>	6.99%	12.73%	21.07%	23.23%
Interest Expenses	1890	1945	1839	1454
Other Income	857	869	885	1000
EBT	1543	3564	7113	9542
Tax Expenses	166	1141	1806	3280
PAT	1377	2424	5308	6261
Exceptional/Extraordinary Items	147	1	0	0
APAT	1230	2422	5308	6261
<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
Per Share Data (INR)				
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
Return Ratios				
RoACE (%)	6.58	10.25	16.66	20.09
RoAE (%)	5.07	9.45	18.50	18.77
Balance Sheet Ratios				
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
Efficiency Ratios				
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
Valuations				
P/E	41.58	29.92	17.04	14.45
P/BV	2.06	2.74	2.93	2.53
Dividend Yield (%)	0.47%	0.49%	0.79%	1.32%
Market Cap / Sales	1.39	1.99	2.36	2.10
EV/EBIDTA	12.29	12.36	9.43	7.71

Balance Sheet

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS				
Share Capital	238	238	238	238
Reserves	24583	26214	30682	35546
Total Networth	24821	26452	30921	35784
Total Debt	29102	27119	22977	19795
Total Liabilities	53923	53571	53897	55579
APPLICATION OF FUNDS				
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)
Total Assets	53923	53571	53897	55579

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)
Cash flow from operations (a)	3974	8712	9814	8264
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
Cash flow from investing (b)	(4540)	(4953)	(2331)	(2480)
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
Cash flow from financing (c)	472	(3587)	(5590)	(5181)
Opening cash balance	540	446	619	2512
Cash Flow during the year (a+b+c)	(93)	172	1893	603
Closing cash balance	446	619	2512	3114

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