

# The Ramco Cements

10 August 2017

Reuters: TRCE.BO; Bloomberg: TRCL IN

## Good Show, But Volume Growth To Be An Area Of Concern

The Ramco Cements (TRCL) reported a good set of numbers for 1QFY18 on the back of 3.8% QoQ growth in realisation. While the volume was up by only 3.6% YoY, operating costs increased 7.5% YoY because of higher power and fuel costs. The resultant EBITDA/mt at Rs1,230 was lower compared to 1Q of the previous year, but on QoQ basis they increased 12.4%. We believe that cement demand from southern region will increase gradually driven by higher demand from Andhra Pradesh and Telangana. However, TRCL's higher exposure to Tamil Nadu and Kerala coupled with the high base of the previous year may result in lower-than-expected demand growth which, we believe, will be an area of concern over the short term. The company reported a huge uptick in power and fuel costs/tn which were up 25.6%/26.7% on YoY/QoQ basis, respectively. The company has exhausted its low-cost pet coke inventory which had cushioned the impact of higher pet coke prices over the past several quarters. Overall, higher income from wind power business and higher cement realisation resulted in total EBITDA of Rs2.9bn compared to our estimate of Rs2.6bn. The company has announced capex of Rs11bn to increase its capacity by 3.1mnmt to 19mnmt. This expansion will help the company to improve its market share in eastern region. We expect this capacity to contribute to volume growth by FY20. We have factored in 9.6% volume growth and 2% price growth for TRCL over FY17-FY19E which will result in 11% revenue CAGR and 11% EBITDA CAGR over the same period. TRCL was able to reduce its debt by more than Rs6bn in FY17 and we expect it to decline further in FY18. TRCL has several advantages like cost efficiency (100% captive power plant and lower operating costs), strong brand image, large market share in Tamil Nadu and Kerala and a robust balance sheet with operating cash flow expected to deleverage it and improve return ratios. At the current level, the company registers capacity utilisation of only 55%-58% which leaves ample scope for future growth. Despite this, we believe its current valuation leaves limited room for upside in the stock price. We have valued TRCL based on our usual method of the average of 12.0x FY19E EV/EBITDA and FY19E EV/mt of US\$160 to arrive at our target price of Rs775 (unchanged from the earlier level).

**1QFY18 results highlights:** We expected TRCL to report a relatively weaker volume and pricing growth compared to peers on account of its higher exposure to Tamil Nadu and Kerala markets. Given the challenges of weak demand in these markets, the company has done well by expanding further in the eastern region. Moreover, TRCL reported decent EBITDA/mt of Rs1,230 despite challenges in its key regions and increase in operating costs. Given the weak demand outlook in Tamil Nadu, we expect demand growth for TRCL to be below average for the next few quarters.

**Outlook:** Given the announced capex for the eastern region, we expect TRCL's reliance on the southern region will reduce, which is a positive. We also believe that going forward TRCL will have to boost its clinker capacity in Andhra Pradesh to cater to the satellite grinding units' higher requirements which entails higher capex. Given the current demand slowdown in Tamil Nadu, we have retained Accumulate rating on the stock.

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## ACCUMULATE

**Sector:** Cement

**CMP:** Rs685

**Target Price:** Rs775

**Upside:** 13%

**Mangesh Bhadang**

Research Analyst

mangesh.bhadang@nirmalbang.com

+91-22-3926 8172

### Key Data

Current Shares O/S (mn)	238.1
Mkt Cap (Rsbn/US\$bn)	160.1/2.5
52 Wk H / L (Rs)	770/473
Daily Vol. (3M NSE Avg.)	243,215

### Price Performance (%)

	1 M	6 M	1 Yr
The Ramco Cements	(5.1)	(2.3)	22.9
Nifty Index	1.4	12.7	15.5

Source: Bloomberg

Y/E March (Rsmn)	1QFY17	4QFY17	1QFY18	YoY %	QoQ %
Net sales	9,721	10,262	10,288	5.8	0.3
Operating expenses	6,635	7,737	7,384	11.3	(4.6)
EBITDA	3,086	2,525	2,904	(5.9)	15.0
EBITDA margin (%)	32	25	28	(351bps)	362bps
Other income	19	39	55	194.1	40.6
Interest costs	291	201	155	(47.0)	(23.2)
Depreciation	663	664	720	8.6	8.4
PBT	2,150	1,699	2,085	(3.0)	22.7
Exceptional items	-	-	-	-	-
PBT post excl. items	2,150	1,699	2,085	(3.0)	22.7
Tax	547	373	524	(4.1)	40.5
Tax rate (%)	25	22	25	(29bps)	318bps
PAT	1,603	1,326	1,560	(2.6)	17.7
Adjusted profit	1,603	1,326	1,560	(2.6)	17.7

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Detailed quarterly financials

(Rsmn)	1QFY17	4QFY17	1QFY18	YoY %	QoQ %
<b>Net sales</b>	<b>9,721</b>	<b>10,262</b>	<b>10,288</b>	<b>5.8</b>	<b>0.3</b>
Chg. in stk.	57	130	(208)	(462.7)	(259.8)
Raw material costs	1,215	1,268	1,389	14.3	9.6
Employee costs	707	673	749	6.0	11.4
Freight costs	2,130	2,616	2,409	13.1	(7.9)
Power and fuel expenses	1,293	1,406	1,681	30.1	19.6
Other expenses	1,233	1,644	1,363	10.5	(17.1)
Operating expenses	6,635	7,737	7,384	11.3	(4.6)
<b>EBITDA</b>	<b>3,086</b>	<b>2,525</b>	<b>2,904</b>	<b>(5.9)</b>	<b>15.0</b>
<i>EBITDA margin (%)</i>	<b>32</b>	<b>25</b>	<b>28</b>	<b>(351bps)</b>	<b>362bps</b>
Other income	19	39	55	194.1	40.6
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<b>Adjusted profit</b>	<b>1,603</b>	<b>1,326</b>	<b>1,560</b>	<b>(2.6)</b>	<b>17.7</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Operational details

(Rs)	1QFY17	4QFY17	1QFY18	YoY %	QoQ %
Volume (mnmt)	2.08	2.28	2.15	3.6	(5.6)
Cement realisation (Rs/mt)	4,586	4,492	4,665	1.7	3.8
Operating costs (Rs/mt)	3,196	3,398	3,434	7.5	1.1
<b>EBITDA (Rs/mt)</b>	<b>1,390</b>	<b>1,094</b>	<b>1,230</b>	<b>(11.5)</b>	<b>12.4</b>

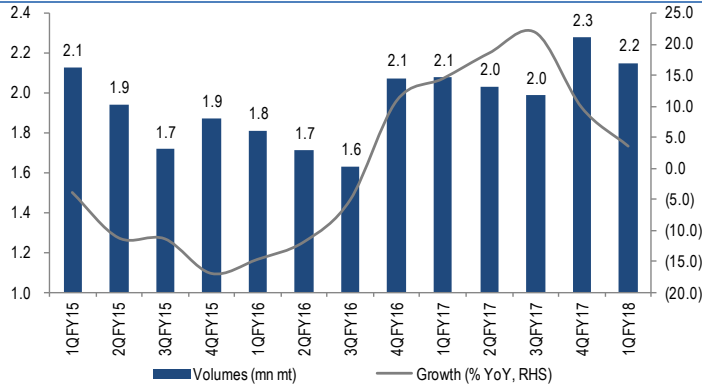
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Trend in operating costs/mt

Costs per mt (Rs)	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ %
Chg in stk	91	(89)	66	(9)	28	(36)	17	57	(97)	(450.2)	(269.3)
Raw material costs	705	614	622	626	585	583	561	557	646	10.4	16.0
Employee costs	342	398	391	315	340	345	351	295	349	2.4	18.0
Freight expenses	1,224	1,038	1,075	1,049	1,026	1,075	1,092	1,149	1,120	9.2	(2.5)
Power and fuel	804	794	707	628	623	593	645	617	782	25.6	26.7
Other exp	693	754	619	620	594	670	645	722	634	6.7	(12.2)
<b>Operating costs</b>	<b>3,859</b>	<b>3,509</b>	<b>3,480</b>	<b>3,228</b>	<b>3,196</b>	<b>3,230</b>	<b>3,312</b>	<b>3,398</b>	<b>3,434</b>	<b>7.5</b>	<b>1.1</b>

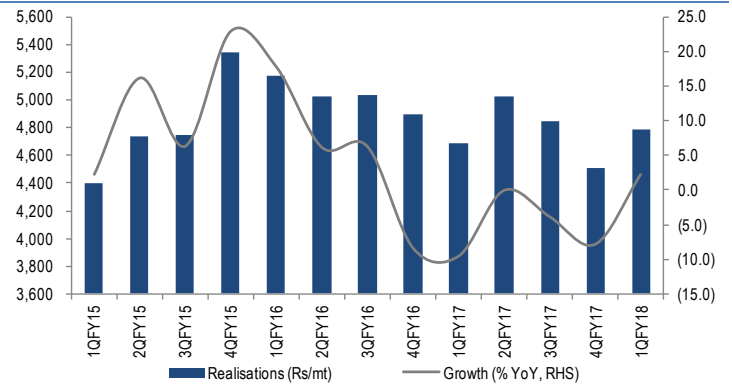
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 4: Volume growth slows down**



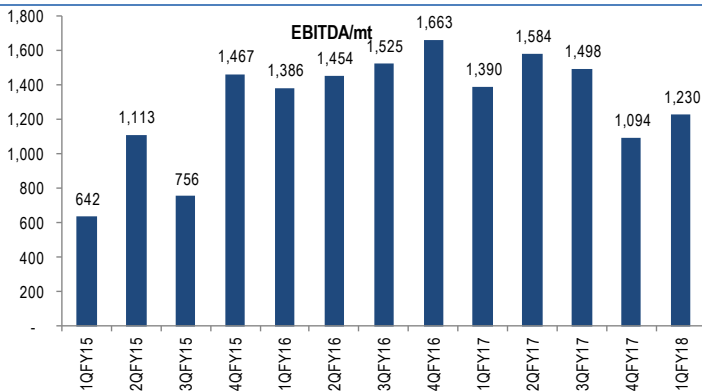
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: Realisation growth lower than peers**



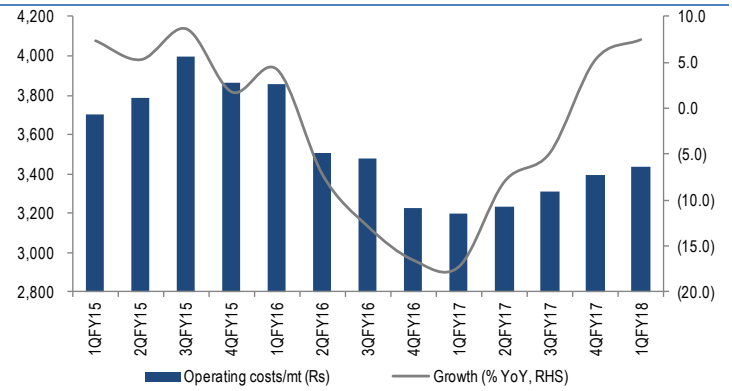
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Decent EBITDA/mt even after higher costs**



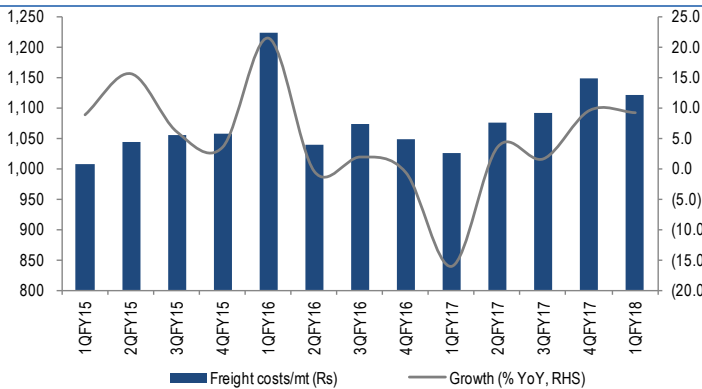
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Operating costs show a sharp increase**



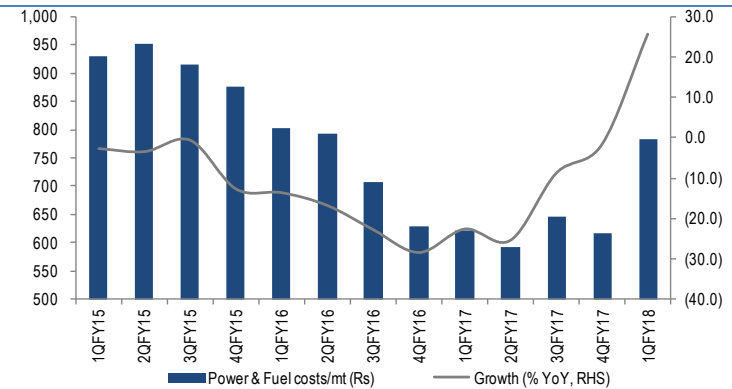
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 8: Freight costs continue to inch up**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Power and fuel costs rise on higher pet coke prices**



Source: Company, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 10: Income statement

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net sales</b>	<b>36,449</b>	<b>35,958</b>	<b>40,524</b>	<b>45,517</b>	<b>50,178</b>
Raw material costs	5,160	4,571	4,942	5,497	6,176
Employee costs	2,287	2,592	3,041	3,415	3,801
Freight costs	11,203	9,381	10,033	10,619	11,932
Power and fuel costs	7,040	5,270	5,636	6,391	7,181
Other expenses	3,595	3,454	3,892	4,414	4,854
Total expenses	29,317	25,368	27,419	30,471	34,088
<b>Operating profit</b>	<b>7,133</b>	<b>10,590</b>	<b>13,105</b>	<b>15,045</b>	<b>16,090</b>
Operating profit margin (%)	19.6	29.5	32.3	33.1	32.1
Other income	869	913	407	324	533
Interest costs	1,938	1,802	1,378	984	639
Depreciation	2,499	2,670	2,766	2,892	3,036
PBT	3,564	7,030	9,367	11,494	12,948
PBT post exc. items	3,564	7,030	9,367	11,494	12,948
Tax	1,141	1,448	2,810	3,448	3,884
Tax rate (%)	32.0	20.6	30.0	30.0	30.0
<b>PAT</b>	<b>2,424</b>	<b>5,583</b>	<b>6,557</b>	<b>8,045</b>	<b>9,064</b>
<b>EPS (Rs)</b>	<b>10</b>	<b>23</b>	<b>28</b>	<b>34</b>	<b>38</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 12: Balance sheet

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Equity capital	238	238	238	238	238
Reserves and surplus	26,214	30,688	36,099	42,712	50,056
Net worth	26,452	30,926	36,337	42,950	50,294
Total debt	27,119	22,056	16,756	11,756	6,756
Deferred tax liability	8,271	8,521	9,202	9,939	10,734
<b>Total liabilities</b>	<b>65,617</b>	<b>66,650</b>	<b>68,215</b>	<b>71,452</b>	<b>75,612</b>
Gross block	72,005	75,340	78,340	82,340	86,340
Acc. Depr.	23,250	26,291	29,057	31,949	34,985
Net block	48,755	49,049	49,283	50,391	51,354
CWIP	2,627	1,468	1,468	1,468	1,468
Investment	3,558	3,654	4,654	4,654	5,654
NWC-Cash	6,145	8,511	8,832	10,637	11,726
Cash	619	908	616	607	1,349
<b>Total assets</b>	<b>65,617</b>	<b>66,650</b>	<b>68,215</b>	<b>71,452</b>	<b>75,612</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Cash flow

Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
PAT	2,424	5,583	6,557	8,045	9,064
Add: Depreciation	2,499	2,670	2,766	2,892	3,036
Chg. in NWC	2,108	(2,366)	(321)	(1,805)	(1,089)
<b>Cash flow from operations</b>	<b>7,031</b>	<b>5,887</b>	<b>9,003</b>	<b>9,133</b>	<b>11,011</b>
Capex	(3,928)	(1,806)	(3,000)	(4,000)	(4,000)
Chg. in Investment	(724)	(95)	(1,000)	-	(1,000)
<b>Cash flow from investing</b>	<b>(5,162)</b>	<b>(1,048)</b>	<b>(4,302)</b>	<b>(4,333)</b>	<b>(5,366)</b>
Issue of shares	0.1	-	-	-	-
Inc. in debt	(2,169)	(5,063)	(5,300)	(5,000)	(5,000)
Inc. in DTL	897	250	682	736	795
Dividend paid	(430)	(861)	(1,146)	(1,433)	(1,719)
Change in LT liabilities	368	1,372	772	888	1,021
Change in reserves	(362)	(248)	-	-	-
<b>Cash flow from financing</b>	<b>(1,697)</b>	<b>(4,549)</b>	<b>(4,992)</b>	<b>(4,809)</b>	<b>(4,903)</b>
Net cash flow	172	289	(292)	(9)	742
Opening cash balance	446	619	908	616	607
<b>Closing cash balance</b>	<b>619</b>	<b>908</b>	<b>616</b>	<b>607</b>	<b>1,349</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 13: Key ratios

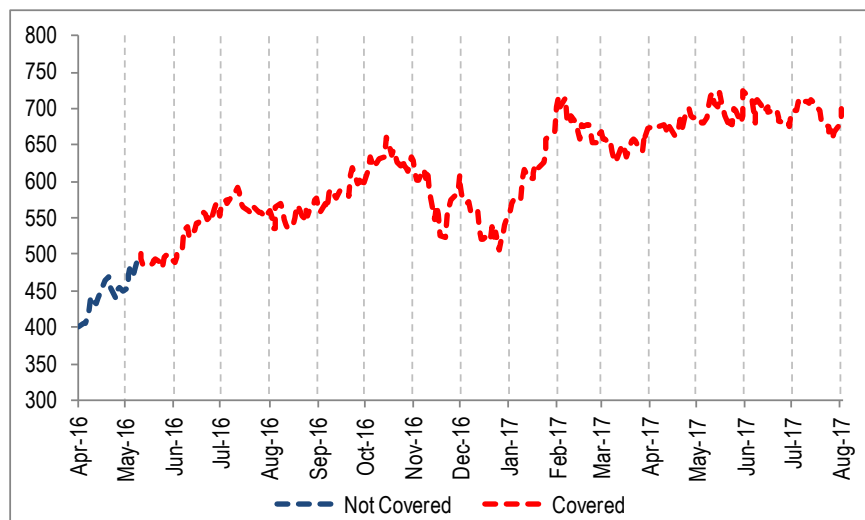
Y/E March (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
<b>Growth (%)</b>					
Sales	(1)	(1)	13	12	10
Operating profit	27	48	24	15	7
Net profit	76	130	17	23	13
<b>Leverage (x)</b>					
Debt:equity	1.0	0.7	0.5	0.3	0.1
Net debt:equity	0.9	0.6	0.3	0.2	-
<b>Profitability (%)</b>					
OPM	20	29	32	33	32
NPM	7	16	16	18	18
RoE	9	18	18	19	18
RoCE	13	20	25	28	28
<b>Valuation (x)</b>					
P/E	30.4	17.1	25.9	21.1	18.7
P/BV	2.8	3.1	4.7	3.9	3.4
EV/EBITDA	14.0	11.0	14.2	12.0	10.9
EV/mt (US\$)	93.4	108.6	173.2	168.6	163.2

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
10 May 2017	Accumulate	706	775
10 August 2017	Accumulate	685	775

## Rating Track Graph



## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 3926 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830
Atul Vitha	Dealing Desk	atul.vitha@nirmalbang.com	022-3926 8071 / 022 -3926 8226

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010