

# Ramco Cements

**BUY**  
Maintained  
**Rs691**

## Higher costs impacted operating performance

Reason for report: Q4FY17 result review and earnings revision

**Ramco Cements'(TRCL) Q4FY17 EBITDA declined 20% YoY to Rs2.5bn (Rs2.73bn) impacted by higher than expected costs and lower realisation. Total cost/te increased by 7.0% YoY led by petcoke price / diesel price hike and higher other expenses on increase in ad spend and impairment charges. Volume growth was better at 11% YoY (I-Sec: 7%) led by higher volumes in East region. However, this impacted realisation which declined 5.0% QoQ vs our estimate of 3.3% QoQ decline. The company repaid Rs6.9bn debt in FY17, reducing total debt to Rs13.2bn. Additionally, TRCL bought back ~1.56mn shares (~0.7% of share capital) in recently announced buyback at an average price of Rs669/share. We cut our FY18-19E EBITDA estimates by ~9% factoring higher cost and introduce FY20E. We marginally raise our target price to Rs800/share (earlier: Rs775/share) based on 11xMar'20E EV/E (earlier: 11xMar'19E EV/E) discounted to Jun'19E (quarterly rollover).**

► **Revenues increased 5.4% YoY to Rs10.1bn:** Cement volumes increased 11.1% YoY / 14.5% QoQ to 2.28mnte (I-Sec: 2.2mnte) led by ramp-up in Vizag grinding unit leading to higher sales in East region. However, this coupled with pricing pressure in South markets impacted realisations which declined 5.0% QoQ / 5.1% YoY to Rs4,450/te (I-Sec: Rs4,529/te). Our channel checks suggest cement prices in South have improved significantly QoQ in Q1FY18 after weakness seen in Feb-Mar'17.

► **Cement EBITDA/te declined 30% YoY to Rs1,076/te** (I-Sec: Rs1,189/te) mainly led by higher cost. Cement cost/ te increased 7% YoY as raw materials plus power cost/te increased 6.6% YoY led by fuel price hike, and other expenses increased sharply by 39% YoY owing to Rs167mn higher ad spend (as TRCL enters newer markets of Odisha) and Rs58mn impairment of asset arising out of upgradation of kiln in Jayanthipuram plant (overall impact Rs100/te). Windmill revenue stood at Rs34mn in Q4FY17 vs Rs4.5mn in Q4FY16. Windmill power EBITDA reported loss of Rs20mn in Q4FY17 vs EBITDA loss of Rs37mn in Q4FY16.

► **PAT declined 26% YoY to Rs1.35bn** (I-Sec: Rs1.47bn). Interest cost declined by 55% YoY to Rs201mn led by debt repayment and fall in average cost of debt by 115bps. TRCL repaid debt of Rs6.9bn in FY17 after generating OCF of ~Rs10.6bn, capex of ~Rs2.8bn, dividend of ~Rs0.9bn.

► **We factor ~8% volume CAGR over FY17-FY20E** and expect EBITDA/te to improve to Rs1,574/te by FY20E from Rs1,401/te in FY17. With TRCL's East operations operating at >90% utilisation, the company may look for expansion in East region.

Market Cap	Rs164bn/US\$2.5bn	Year to Mar	2017	2018E	2019E	2020E
Reuters/Bloomberg	RAMC.BO / TRCL IN	Revenue (Rs mn)	39,292	44,091	49,446	55,455
Shares Outstanding (mn)	238.1	EBITDA (Rs mn)	11,686	13,313	15,175	17,377
52-week Range (Rs)	723/341	EPS (Rs)	27.8	33.9	40.7	49.4
Free Float (%)	57.7	% Chg YoY	21.6	21.6	20.3	21.2
FII (%)	14.5	P/E (x)	24.8	20.4	17.0	14.0
Daily Volume (US\$'000)	2,432	CEPS (Rs)	39.0	45.4	52.7	63.1
Absolute Return 3m (%)	3.8	EV/E (x)	15.2	12.8	10.9	8.4
Absolute Return 12m (%)	38.5	Dividend Yield	0.4	0.7	0.9	1.1
Sensex Return 3m (%)	8.6	RoCE (%)	12.3	14.3	16.1	17.3
Sensex Return 12m (%)	18.0	RoE (%)	19.3	19.8	20.5	21.0

## Cement

Target price Rs800

### Earnings revision

(%)	FY18E	FY19E
Sales	↑ 0.4	↓ 0.2
EBITDA	↓ 9.3	↓ 9.7
EPS	↓ 5.8	↓ 6.7

### Target price revision

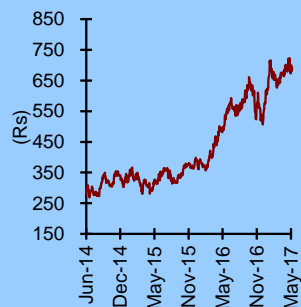
Rs800 from Rs775

### Shareholding pattern

	Sep '16	Dec '16	Mar '17
Promoters	42.3	42.3	42.3
Institutional investors	33.6	32.7	33.4
MFs and UTI	15.5	15.7	16.3
FIs//Bank/Ins.	2.6	2.6	2.6
FIIIs	15.5	14.4	14.5
Others	24.1	25.0	27.7

Source: CMIE

### Price chart



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**Table 1: Q4FY17 result review***(Rs mn, year ending March 31)*

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	I-Sec	Variance %
Volumes (mn te)	2.28	2.05	11.1	1.99	14.5	2.20	3.5
Avg. realisation (Rs/te)	4,450	4,691	(5.1)	4,682	(5.0)	4,529	(1.7)
<b>Net sales</b>	<b>10,132</b>	<b>9,616</b>	<b>5.4</b>	<b>9,308</b>	<b>8.9</b>	<b>9,963</b>	<b>1.7</b>
Other operating income	104	25	313.1	123	(16.0)	108	(4.2)
Raw material costs	1,962	1,542	27.3	1,649	19.0	1,838	6.7
Personnel costs	673	631	6.6	698	(3.6)	702	(4.2)
Power and fuel costs	1,406	1,302	8.0	1,283	9.6	1,492	(5.8)
Freight expenses	2,052	1,857	10.5	1,771	15.9	1,993	2.9
Other expenses	1,644	1,180	39.4	1,283	28.1	1,315	25.1
<b>Total expenses</b>	<b>7,737</b>	<b>6,511</b>	<b>18.8</b>	<b>6,685</b>	<b>15.7</b>	<b>7,340</b>	<b>5.4</b>
<b>EBITDA</b>	<b>2,499</b>	<b>3,130</b>	<b>(20.1)</b>	<b>2,747</b>	<b>(9.0)</b>	<b>2,732</b>	<b>(8.5)</b>
<b>EBITDA/te incl. windmill (Rs/te)</b>	<b>1,098</b>	<b>1,527</b>	<b>(28.1)</b>	<b>1,382</b>	<b>(20.6)</b>	<b>1,242</b>	<b>(11.6)</b>
Interest	201	450	(55.3)	261	(23.0)	258	(21.9)
Depreciation	664	1,031	(35.6)	661	0.4	666	(0.3)
Other income	84	384	(78.2)	216	(61.3)	112	(25.2)
<b>Recurring pre-tax income</b>	<b>1,718</b>	<b>2,033</b>	<b>(15.5)</b>	<b>2,040</b>	<b>(15.8)</b>	<b>1,920</b>	<b>(10.5)</b>
Extra-ordinary items	-	-	-	-	-	-	-
Taxation	373	209	78.8	522	(28.5)	454	(17.7)
<b>Reported net income</b>	<b>1,345</b>	<b>1,824</b>	<b>(26.3)</b>	<b>1,519</b>	<b>(11.5)</b>	<b>1,467</b>	<b>(8.3)</b>
<b>Recurring net income</b>	<b>1,345</b>	<b>1,824</b>	<b>(26.3)</b>	<b>1,519</b>	<b>(11.5)</b>	<b>1,467</b>	<b>(8.3)</b>
<b>Ratios (%)</b>							
EBITDA margins	24.7	32.5		29.5		27.4	
Net profit margins	13.3	19.0		16.3		14.7	

Source: Company data, I-Sec research

**Table 2: Historical quarterly analysis on per-tonne basis***(Rs/te)*

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
<b>Sales realisation - only cement</b>	<b>4,691</b>	<b>4,541</b>	<b>4,769</b>	<b>4,682</b>	<b>4,450</b>
Raw materials	752	807	777	830	862
Power & fuel	635	623	591	645	617
Freight	906	853	879	891	901
Staff	308	340	344	351	295
Other expenditure	572	594	669	645	722
<b>Total cost</b>	<b>3,176</b>	<b>3,217</b>	<b>3,260</b>	<b>3,362</b>	<b>3,398</b>
<b>EBITDA/te - cement</b>	<b>1,538</b>	<b>1,353</b>	<b>1,524</b>	<b>1,339</b>	<b>1,076</b>

Source: Company data, I-Sec research

**Table 3: Per-tonne estimates***(Rs/te)*

	FY16	FY17E	FY18E	FY19E	FY20E
<b>Net realisations - cement</b>	<b>4,933</b>	<b>4,620</b>	<b>4,851</b>	<b>4,996</b>	<b>5,146</b>
YoY (%)	6.9	(6.4)	5.0	3.0	3.0
Raw material consumed	826	822	850	870	889
Power and fuel	732	621	690	725	755
Freight	933	884	913	931	950
Others	1,038	1,000	1,013	1,013	1,013
<b>Total operating expenses</b>	<b>3,529</b>	<b>3,328</b>	<b>3,466</b>	<b>3,539</b>	<b>3,607</b>
YoY (%)	(7.8)	(5.7)	4.2	2.1	1.9
<b>EBITDA/te incl. windmill</b>	<b>1,603</b>	<b>1,472</b>	<b>1,564</b>	<b>1,633</b>	<b>1,774</b>
YoY (%)	52.7	(8.2)	6.3	4.4	8.6
<b>EBITDA/te - cement only</b>	<b>1,520</b>	<b>1,401</b>	<b>1,493</b>	<b>1,558</b>	<b>1,574</b>
YoY (%)	54.2	(7.8)	6.6	4.4	1.0

Source: Company data, I-Sec research, financials from FY17 based on Ind-AS

**Table 4: Performance trend and assumptions**

	FY16	FY17E	FY18E	FY19E	FY20E
Capacity	13,490	15,490	15,490	16,990	17,490
Capacity utilisation (%)	53.4	53.9	57.7	57.3	60.7
Sales	7,199	8,348	8,932	9,736	10,613
Growth (%)	(6.1)	16.0	7.0	9.0	9.0
Realisation (Rs/te)	4,933	4,620	4,851	4,996	5,146
Growth (%)	6.9	(6.4)	5.0	3.0	3.0

Source: Company data, I-Sec research, financials from FY17 based on Ind-AS

**Table 5: Valuations based on 11x Mar'20E EV/E discounted to Jun'19E**

(Rs.mn)

Target EV/ EBITDA multiple (x)	11
Target EV (Rs mn)	199,603
Net debt / (cash) (Rs mn)	(3,771)
<b>Target value (Rs mn)</b>	<b>203,373</b>
<b>No. of shares (mn)</b>	<b>236</b>
<b>Fair value per share based on Mar'20E (Rs)</b>	<b>865</b>
<b>Target price per share (Rs) discounted to Jun'19E</b>	<b>800</b>

Source: I-Sec research

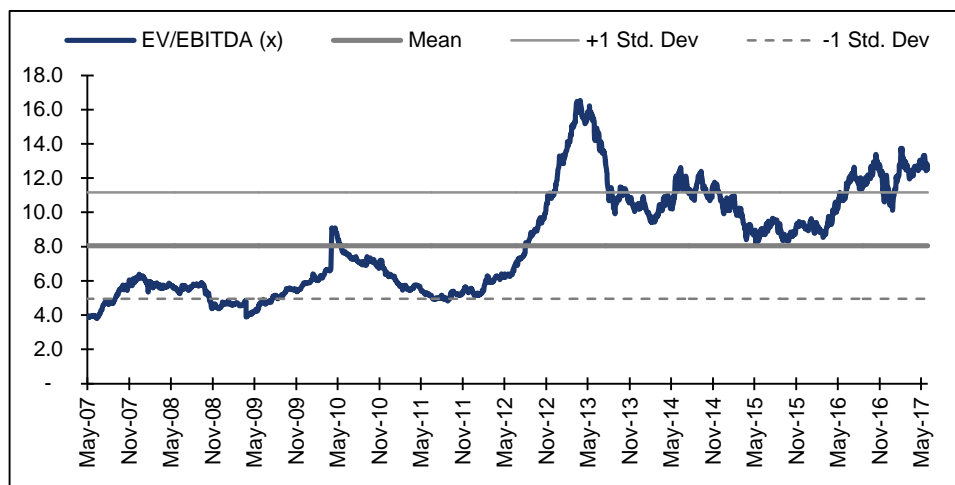
**Table 6: Earnings revision**

(Rs mn)

	FY18E			FY19E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	44,091	43,919	0.4	49,446	49,536	(0.2)
EBITDA	13,313	14,677	(9.3)	15,175	16,803	(9.7)
PAT	7,973	8,467	(5.8)	9,591	10,279	(6.7)

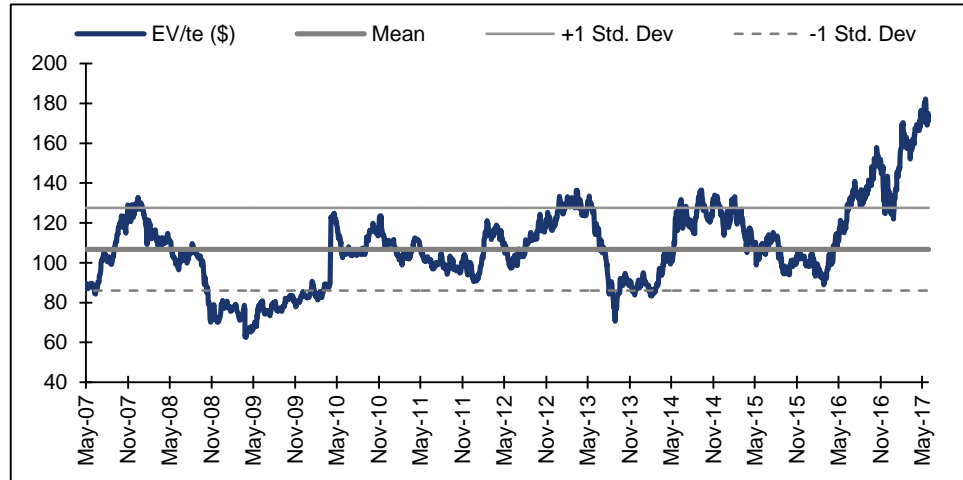
Source: Company data, I-Sec research

**Chart 1: EV/E bands**



Source: I-Sec research

Chart 2: EV/te



Source: I-Sec research

## Financial summary (Consolidated)

Table 7: Profit and Loss statement

(Rs mn, year ending March 31)

	FY17	FY18E	FY19E	FY20E
<b>Operating Income (Sales)</b>	<b>39,292</b>	<b>44,091</b>	<b>49,446</b>	<b>55,455</b>
Other operating income	173	182	191	200
<b>Operating Expenses</b>	<b>27,779</b>	<b>30,960</b>	<b>34,461</b>	<b>38,278</b>
<b>EBITDA</b>	<b>11,686</b>	<b>13,313</b>	<b>15,175</b>	<b>17,377</b>
% margin	29.7	30.2	30.7	31.3
Depreciation & Amortisation	2,669	2,716	2,810	3,224
Gross Interest	1,049	742	421	220
Other Income	601	661	727	1,454
<b>Recurring PBT</b>	<b>8,569</b>	<b>10,515</b>	<b>12,671</b>	<b>15,386</b>
Add: Extraordinaries	-	-	-	-
Less: Taxes	2,027	2,629	3,168	3,847
- Current tax	1,850	1,907	2,374	2,974
- Deferred tax	177	722	794	873
<b>Net Income (Reported)</b>	<b>6,627</b>	<b>7,973</b>	<b>9,591</b>	<b>11,628</b>
<b>Recurring Net Income</b>	<b>6,627</b>	<b>7,973</b>	<b>9,591</b>	<b>11,628</b>

Source: Company data, I-Sec research

Table 8: Balance sheet

(Rs mn, year ending March 31)

	FY17	FY18E	FY19E	FY20E
<b>Assets</b>				
Total Current Assets	15,292	15,959	17,649	24,635
Current Liab. & Prov.	12,445	14,470	15,364	17,884
<b>Net Current Assets</b>	<b>2,847</b>	<b>1,489</b>	<b>2,284</b>	<b>6,752</b>
<b>Investments of which</b>	<b>3,562</b>	<b>3,562</b>	<b>3,562</b>	<b>3,562</b>
Strategic/Group	3,562	3,562	3,562	3,562
Marketable	-	-	-	-
<b>Net Fixed Assets*</b>	<b>51,851</b>	<b>54,635</b>	<b>57,325</b>	<b>62,601</b>
of which				
Capital Work-in-Progress	974	974	974	974
<b>Goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>59,561</b>	<b>59,686</b>	<b>63,171</b>	<b>72,915</b>
of which cash & cash equi.	1,198	1,020	1,449	6,894
<b>Liabilities</b>				
<b>Borrowings</b>	<b>14,372</b>	<b>8,961</b>	<b>3,788</b>	<b>3,123</b>
<b>Deferred Tax Liability</b>	<b>7,215</b>	<b>7,937</b>	<b>8,730</b>	<b>9,603</b>
Minority Interest	19	19	19	19
Equity Share Capital	238	236	236	236
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	37,717	42,534	50,399	59,934
<b>Net Worth</b>	<b>37,955</b>	<b>42,770</b>	<b>50,634</b>	<b>60,169</b>
<b>Total Liabilities</b>	<b>59,561</b>	<b>59,686</b>	<b>63,171</b>	<b>72,915</b>

Source: Company data, I-Sec research

Table 11: Quarterly trend

(Rs mn, year ending March 31)

	Jun-16	Sep-16	Dec-16	Mar-17
<b>Net sales</b>	<b>9,429</b>	<b>9,700</b>	<b>9,308</b>	<b>10,132</b>
% growth (YoY)	4.3	16.3	15.2	5.4
<b>Recurring EBITDA</b>	<b>3,042</b>	<b>3,566</b>	<b>2,747</b>	<b>2,499</b>
Margin (%)	32.3	36.8	29.5	24.7
Other income	19	55	216	84
Extraordinaries Inc / (Loss)	-	-	-	-
<b>Recurring Net Income</b>	<b>1,559</b>	<b>2,070</b>	<b>1,519</b>	<b>1,345</b>

Source: Company data

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY17	FY18E	FY19E	FY20E
<b>Operating Cashflow</b>	<b>8,622</b>	<b>10,811</b>	<b>11,236</b>	<b>14,347</b>
Working Capital changes	967	1,119	866	901
Capital Commitments	(2,789)	(5,500)	(5,500)	(8,500)
<b>Net Operating FCF</b>	<b>6,800</b>	<b>6,430</b>	<b>6,601</b>	<b>6,749</b>
<b>Investing Activities</b>	<b>306</b>	<b>661</b>	<b>727</b>	<b>1,454</b>
Issue of Share Capital	0	-	-	-
Buyback of shares	-	(3)	-	-
Inc(Dec) in Borrowings	(7,032)	(5,411)	(5,173)	(664)
Dividend paid	(857)	(1,435)	(1,726)	(2,093)
Others	1,069	(1,720)	0	(0)
Extraordinary Items	-	-	-	-
<b>Chg. in Cash &amp; Bank</b>	<b>286</b>	<b>(1,478)</b>	<b>429</b>	<b>5,445</b>

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY17	FY18E	FY19E	FY20E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	27.8	33.9	40.7	49.4
Diluted Recurring EPS	27.8	33.9	40.7	49.4
Diluted Recurring CEPS	39.0	45.4	52.7	63.1
Dividend per share	3.0	5.1	6.1	7.4
Book Value	159	182	215	255
<b>Growth Ratios (% YoY)</b>				
Operating Income	10.0	12.2	12.1	12.2
EBITDA	10.5	13.9	14.0	14.5
Recurring Net Income	58.2	20.3	20.3	21.2
Diluted Recurring EPS	58.2	21.6	20.3	21.2
Diluted Recurring CEPS	32.8	16.3	16.0	19.8
<b>Valuation Ratios (x)</b>				
P/E	24.8	20.4	17.0	14.0
P/CEPS	17.7	15.2	13.1	11.0
P/BV	4.3	3.8	3.2	2.7
EV / EBITDA	15.2	12.8	10.9	8.4
EV / te (US\$)	171	164	145	135
EV / Operating Income	4.5	3.9	3.3	2.9
EV / Operating FCF	13.2	14.3	13.6	10.4
<b>Operating Ratios (%)</b>				
Raw Material / Sales	17.5	17.2	17.1	17.0
Other expenses / Sales	53.2	53.0	52.6	52.0
Other Income / PBT	7.0	6.3	5.7	9.4
Effective Tax Rate	23.7	25.0	25.0	25.0
NWC / Total Assets	0.0	0.0	0.0	(0.0)
Inventory (x)	3	3	3	3
Receivables (days)	41	41	38	38
Payable (days)	31	33	34	36
D/E Ratio (x)	0.3	0.2	0.0	0.2
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	16.6	17.8	19.1	20.4
RoCE	12.3	14.3	16.1	17.3
RoNW	19.3	19.8	20.5	21.0
Dividend Payout	10.8	15.0	15.0	15.0

Source: Company data, I-Sec research

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### ANALYST CERTIFICATION

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