

Institutional Equity Research

Ramco Cements

Cement | India

4QFY17 Result Update | May 30, 2017

| | |
|------------------------|---------|
| CMP* (Rs) | 690 |
| Upside/ (Downside) (%) | 10 |
| Bloomberg Ticker | TRCL IN |
| Market Cap. (Rs bn) | 164 |
| Free Float (%) | 58 |
| Shares O/S (mn) | 238 |

BUY 

Target Price: Rs760

Dismal Operating Performance; Better Prospects Ahead

Despite strong sales volume, Ramco Cements (RCL) has reported a lower-than-estimated operating performance in 4QFY17 primarily due to sharp surge in operating cost per tonne to Rs3,398 (+8.5% YoY and +1.1% QoQ). Its EBITDA declined by 23% YoY and 9% QoQ to Rs2.4bn vs. our estimate of Rs2.7bn. While Power & Fuel and Freight costs remained in comfortable zone, a substantial rise in other expenditures/tonne (+39% YoY and +28% QoQ) and RM cost/tonne (+16% YoY and 4% QoQ) led to higher operating cost. Notably, an additional expenditure of Rs170mn towards A&P and Rs58mn provisioning towards impairment of assets arising out of kiln up-gradation led to higher other expenditures. Cement EBITDA/tonne stood at Rs1,052 vs. Rs1,493 in 4QFY16 and Rs1,319 in 3QFY17. EBITDA margins stood at 23.6% vs. 32.3% in 4QFY16. Notably, RCL has pared down its debt by Rs6.9bn in FY17 (Rs1.6bn in 4QFY17) from internal accruals, which resulted in lower finance cost in 4QFY17 (-55% YoY and -23% QoQ). **Trimming down our EBITDA estimate by 12% and 8% for FY18E and FY19E, respectively to factor in subdued realizations, we continue to maintain our BUY recommendation on the stock with a revised Target Price of Rs760.**

Sales Volume Remains Impressive

RCL continued to report robust growth in sales volume for fifth successive quarter. Meaningful demand up-tick in Southern states especially during Mar'17 and venturing into new markets led to 9.5% YoY and 14.5% QoQ growth in RCL's sales volume to 2.28mnT (including 0.03mnT exports). RCL's sales volume (including exports of 0.14mnT) grew by 19% YoY to 8.35mnT in FY17.

Subdued Realizations & Higher Other Expenses Drag Operating Profit

A substantial spike in other expenditures and increase in raw materials cost dragged RCL's quarterly operating performance. Its EBITDA declined by 23% YoY and 9% QoQ to Rs2.4bn vs. our estimate of Rs2.7bn. Notably, an additional expenditure of Rs170mn towards A&P and Rs58mn provisioning towards impairment of assets arising out of kiln up-gradation led to higher other expenditures. EBITDA/tonne stood at Rs1,052 vs. Rs1,493 in 4QFY16 and Rs1,319 in 3QFY17. NCR declined by 3.7% YoY and 5.0% QoQ to Rs4,450/tonne.

Outlook & Valuation

We continue to prefer RCL in cement space mainly owing to: (a) being one of the lowest cost producers; (b) consistent de-leveraging of balance sheet; (c) strong brand equity; (d) likely improvement in its utilizations; and (e) better than industry's return ratios. We increase our EV/EBITDA multiple from 11x to 12x mainly owing to superior profitability and geographical expansion. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs760.**

| Key Financials (Rs mn) | FY16 | FY17 | FY18E | FY19E |
|------------------------|--------|--------|--------|--------|
| Sales | 35,872 | 38,568 | 42,526 | 49,458 |
| EBITDA | 10,504 | 10,836 | 11,967 | 14,425 |
| Net Profit | 5,583 | 6,493 | 6,914 | 9,966 |
| EPS (Rs) | 23.5 | 27.3 | 29.0 | 41.9 |
| DPS (Rs) | 3.0 | 3.0 | 4.0 | 5.0 |
| P/E (x) | 29.4 | 25.3 | 23.8 | 16.5 |
| P/B (x) | 5.3 | 4.4 | 3.8 | 3.2 |
| EV/EBITDA (x) | 17.6 | 16.5 | 14.3 | 11.2 |
| RoE (%) | 19.5 | 19.0 | 17.2 | 21.0 |
| Divi. Yield (%) | 0.4 | 0.4 | 0.6 | 0.7 |

Source: Company, RSec Research

| Share price (%) | 1 mth | 3 mth | 12 mth |
|----------------------|-------|-------|--------|
| Absolute performance | 1.3 | 5.6 | 41.2 |
| Relative to Nifty | (2.2) | (2.5) | 23.2 |

| Shareholding Pattern (%) | Dec'16 | Mar'17 |
|--------------------------|--------|--------|
| Promoter | 42.3 | 42.3 |
| Public | 57.7 | 57.7 |

1 Year Stock Price Performance



Note: * CMP as on May 30, 2017

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Risks to the View

- ▶ Government's failure to revive infrastructure projects
- ▶ A substantial increase in operating costs.

Exhibit 1: Quarterly Performance

| (Rs mn) | 4QFY17 | 4QFY16 | % yoy | 3QFY17 | % qoq | FY17 | FY16 | % yoy |
|-----------------------------------|--------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|
| Net Sales | 10,132 | 9,616 | 5.4 | 9,308 | 8.9 | 38,568 | 35,073 | 10.0 |
| Expenses | | | | | | | | |
| Cost of Materials Consumed | 1,832 | 1,561 | 17.3 | 1,615 | 13.4 | 6,717 | 5,789 | 16.0 |
| Change in WIP | 130 | (19) | (770.1) | 34 | 280.1 | 149 | 99 | 50.3 |
| % sales | 19.4 | 16.0 | | 17.7 | | 17.8 | 16.8 | |
| Employee Benefit expenses | 673 | 631 | 6.6 | 698 | (3.6) | 2,777 | 2,587 | 7.4 |
| % sales | 6.6 | 6.6 | | 7.5 | | 7.2 | 7.4 | |
| Transport and Handling | 2,052 | 1,857 | 10.5 | 1,771 | 15.9 | 7,383 | 6,719 | 9.9 |
| % sales | 20.3 | 19.3 | | 19.0 | | 19.1 | 19.2 | |
| Power & Fuel | 1,406 | 1,301 | 8.0 | 1,283 | 9.6 | 5,185 | 5,270 | (1.6) |
| % sales | 13.9 | 13.5 | | 13.8 | | 13.4 | 15.0 | |
| Other Expenditures | 1,644 | 1,180 | 39.4 | 1,283 | 28.1 | 5,521 | 4,553 | 21.3 |
| % sales | 16.2 | 12.3 | | 13.8 | | 14.3 | 13.0 | |
| Total Expenditures | 7,737 | 6,511 | 18.8 | 6,685 | 15.7 | 27,731 | 25,017 | 10.9 |
| Operating costs/tonne (Rs) | 3,398 | 3,130 | 8.5 | 3,362 | 1.1 | 3,311 | 3,460 | (4.3) |
| EBITDA | 2,396 | 3,105 | (22.8) | 2,623 | (8.7) | 10,836 | 10,056 | 7.8 |
| EBITDA margins (%) | 23.6 | 32.3 | (26.8) | 28.2 | | 28.1 | 28.7 | (2.0) |
| EBITDA/tonne (Rs) | 1,052 | 1,493 | (29.5) | 1,319 | (20.3) | 1,294 | 1,391 | (7.0) |
| Depreciation | 664 | 1,031 | (35.6) | 661 | 0.4 | 2,655 | 3,048 | (12.9) |
| Finance Costs | 201 | 450 | (55.3) | 261 | (23.0) | 1,035 | 1,819 | (43.1) |
| Other Income | 188 | 409 | (54.2) | 340 | (44.8) | 1,356 | 1,544 | (12.2) |
| PBT | 1,718 | 2,033 | (15.5) | 2,040 | (15.8) | 8,502 | 6,734 | 26.3 |
| Tax | 373 | 209 | 78.8 | 522 | (28.5) | 2,009 | 1,312 | 53.1 |
| % PBT | 21.7 | 10.3 | | 25.6 | | 23.6 | 19.5 | |
| PAT | 1,345 | 1,825 | (26.3) | 1,519 | (11.5) | 6,493 | 5,422 | 19.8 |
| Extraordinary Items | 0 | 0 | | 0 | | 0 | 0 | |
| Profit for the period | 1,345 | 1,825 | (26.3) | 1,519 | (11.5) | 6,493 | 5,422 | 19.8 |
| Net Margins | 13.3 | 19.0 | | 16.3 | | 16.8 | 15.5 | |
| EPS (Rs) | 5.7 | 8.6 | (34.2) | 6.4 | (11.5) | 27.3 | 22.8 | 19.8 |

Source: Company, RSec Research

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Exhibit 2: Revised v/s Old Estimates

| | FY18E | | | FY19E | | |
|------------------------------|--------|---------|----------|--------|---------|----------|
| | Old | Revised | % change | Old | Revised | % change |
| Volume (mnT) | 9.16 | 9.10 | (0.6) | 10.49 | 10.35 | (1.3) |
| Gross Realization (Rs/tonne) | 5,450 | 5,358 | (1.7) | 5,600 | 5,572 | (0.5) |
| Sales (Rs mn) | 45,344 | 42,526 | (6.2) | 53,397 | 49,458 | (7.4) |
| EBITDA (Rs mn) | 13,601 | 11,967 | (12.0) | 15,658 | 14,425 | (7.9) |
| EBITDA margins (%) | 30.0 | 28.1 | | 29.3 | 29.2 | |
| PAT (Rs mn) | 7,863 | 6,914 | (12.1) | 10,534 | 9,966 | (5.4) |
| PAT margins (%) | 17.3 | 16.3 | | 19.7 | 20.1 | |
| EPS (Rs) | 33.0 | 29.0 | (12.1) | 44.3 | 41.9 | (5.4) |

Source: RSec Research

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BUY 

Target Price: Rs760

Profit & Loss

| Y/E Mar (Rs mn) | FY16 | FY17 | FY18E | FY19E |
|-----------------------------|---------------|---------------|---------------|---------------|
| Income | 35,872 | 38,568 | 42,526 | 49,458 |
| % yoy growth | (0.2) | 7.5 | 10.3 | 16.3 |
| Total Cost | 25,368 | 27,731 | 30,560 | 35,033 |
| RM Consumed | 5,943 | 6,866 | 7,515 | 8,209 |
| Exmployee Costs | 2,592 | 2,777 | 2,977 | 3,363 |
| Power & Fuel | 5,270 | 5,185 | 6,257 | 7,454 |
| Freight Costs | 7,493 | 8,161 | 9,520 | 11,341 |
| Other Exps. | 4,070 | 5,521 | 4,290 | 4,666 |
| EBITDA | 10,504 | 10,836 | 11,967 | 14,425 |
| EBITDA Margin (%) | 29.3 | 28.1 | 28.1 | 29.2 |
| Depreciation & Amortization | 2,670 | 2,655 | 2,843 | 1,432 |
| Finance Costs | 1,802 | 1,035 | 945 | 646 |
| Other Income | 999 | 1,356 | 1,424 | 1,495 |
| Extraordinary Items | - | - | - | - |
| PBT | 7,030 | 8,502 | 9,602 | 13,841 |
| Tax | 1,448 | 2,009 | 2,689 | 3,876 |
| % Tax | 20.6 | 23.6 | 28.0 | 28.0 |
| Net Profit- Reported | 5,583 | 6,493 | 6,914 | 9,966 |
| YoY Growth (%) | 130.3 | 16.3 | 6.5 | 44.1 |
| Net Profit- Adjusted | 5,583 | 6,493 | 6,914 | 9,966 |
| Net Profit Margin (%) | 15.6 | 16.8 | 16.3 | 20.1 |

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Balance Sheet

| Y/E Mar (Rs mn) | FY16 | FY17E | FY18E | FY19E |
|-------------------------------------|---------------|---------------|---------------|---------------|
| LIABILITIES | | | | |
| Share Capital | 238 | 238 | 238 | 238 |
| Reserves & Surplus | 30,688 | 37,177 | 42,945 | 51,479 |
| Total Shareholder's funds | 30,926 | 37,415 | 43,183 | 51,717 |
| Long Term Borrowings | 10,586 | 5,036 | 4,000 | 3,000 |
| Deferred Tax Liability | 8,521 | 7,281 | 7,281 | 7,281 |
| Other Long Term Liability | 5,203 | 115 | 127 | 145 |
| Long Term Provisions | 172 | 36 | 40 | 46 |
| Total LT Liabilities | 24,482 | 12,469 | 11,448 | 10,472 |
| Short Term Borrowings | 7,017 | 6,345 | 4,345 | 2,345 |
| Trade Payables | 2,091 | 2,558 | 2,763 | 3,167 |
| Other Current Liabilities | 5,471 | 10,837 | 11,942 | 13,691 |
| Short Term Provisions | 266 | 465 | 513 | 588 |
| Total Current Liabilities | 14,844 | 20,205 | 19,563 | 19,791 |
| Total Liabilities | 70,252 | 70,089 | 74,194 | 81,979 |
| ASSETS | | | | |
| Fixed Assets | | | | |
| Net Block | 49,049 | 49,424 | 47,781 | 47,349 |
| CWIP | 1,383 | 974 | 1,000 | 1,000 |
| Intangible Assets under development | 85 | 228 | 228 | 228 |
| Non Current Investments | 3,654 | 3,890 | 3,890 | 3,890 |
| Long Term Loans & Advances | 3,024 | 561 | 619 | 719 |
| Other Non-Current Assets | 36 | 826 | 911 | 1,059 |
| Total | 57,231 | 55,903 | 54,428 | 54,245 |
| Inventories | 5,490 | 5,754 | 6,279 | 7,199 |
| Trade Receivables | 4,685 | 5,549 | 6,119 | 7,116 |
| Cash and Bank Balance | 908 | 381 | 4,609 | 10,211 |
| ST Loans and Advances | 1,921 | 273 | 301 | 350 |
| Other Current Assets | 17 | 2,229 | 2,458 | 2,859 |
| Total Current Assets | 13,021 | 14,186 | 19,765 | 27,734 |
| Total Assets | 70,252 | 70,089 | 74,194 | 81,979 |

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Cash Flow Statement

| Y/E Mar (Rs mn) | FY16 | FY17E | FY18E | FY19E |
|---|----------------|----------------|----------------|----------------|
| PBT | 7,030 | 8,502 | 9,602 | 13,841 |
| (Profit)/Loss on sale of assets | 4 | 0 | 0 | 0 |
| Depreciation | 2,670 | 2,655 | 2,843 | 1,432 |
| Interest and dividend received | (103) | 0 | 0 | 0 |
| Rent Receipt | (76) | 0 | 0 | 0 |
| Interest Paid | 1,749 | 1,035 | 945 | 646 |
| Amortization of Intangible Assets | 200 | 0 | 0 | 0 |
| Others | (71) | 0 | 0 | 0 |
| Operating profit before WC changes | 11,403 | 12,192 | 13,390 | 15,920 |
| Trade and Othe receivables | (25) | 245 | (969) | (1,696) |
| Earmarked balances with Banks | (24) | 0 | 0 | 0 |
| Inventories | (284) | (264) | (525) | (919) |
| Trade Payables | 1,000 | 809 | 1,373 | 2,252 |
| Cash generated from operations | 12,070 | 12,982 | 13,270 | 15,556 |
| Direct Taxes Paid | (1,442) | (3,248) | (2,689) | (3,876) |
| Extraordinary Itmes | 0 | 0 | 0 | 0 |
| Net Cash from Operating activities | 10,628 | 9,734 | 10,581 | 11,681 |
| Purchase of Fixed Assets | (2,500) | (2,764) | (1,226) | (1,000) |
| Sale fo Fixed Assets | 10 | 0 | 0 | 0 |
| Interest and dividend received | 111 | 0 | 0 | 0 |
| Purchase of investments | (56) | (236) | 0 | 0 |
| Rent receipts from investment property | 76 | 0 | 0 | 0 |
| Redemption of investments | 0 | 0 | 0 | 0 |
| Others | 33 | 855 | 0 | 0 |
| Net cash in Investing activities | (2,327) | (2,145) | (1,226) | (1,000) |
| Borrowings (net) | (5,100) | (6,221) | (3,036) | (3,000) |
| Payment of dividend and tax threron | (1,291) | (859) | (1,146) | (1,432) |
| Interest paid | (1,621) | (1,035) | (945) | (646) |
| Net cash from financing activities | (8,011) | (8,116) | (5,127) | (5,078) |
| Net Inc/(Dec) in cash and cash equivalent | 290 | (527) | 4,228 | 5,602 |
| Opening Cash | 619 | 908 | 381 | 4,609 |
| Closing Cash | 908 | 381 | 4,609 | 10,211 |

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Key Ratio

| Y/E Mar (Rs mn) | FY16 | FY17E | FY18E | FY19E |
|------------------------------|-------|-------|-------|-------|
| Valuation Ratio (x) | | | | |
| P/E | 29.4 | 25.3 | 23.8 | 16.5 |
| P/CEPS | 19.9 | 18.0 | 16.8 | 14.4 |
| P/BV | 5.3 | 4.4 | 3.8 | 3.2 |
| EV/EBIDTA | 17.6 | 16.5 | 14.3 | 11.2 |
| EV/Sales | 5.2 | 4.6 | 4.0 | 3.3 |
| EV/tonne (USD) | 205 | 198 | 189 | 179 |
| Dividend Payout (%) | 12.8 | 11.0 | 13.8 | 11.9 |
| Dividend Yield (%) | 0.4 | 0.4 | 0.6 | 0.7 |
| Per Share Data (Rs) | | | | |
| EPS (Basic) | 23.5 | 27.3 | 29.0 | 41.9 |
| EPS (Diluted) | 23.5 | 27.3 | 29.0 | 41.9 |
| CEPS | 34.7 | 38.4 | 41.0 | 47.9 |
| DPS | 3.0 | 3.0 | 4.0 | 5.0 |
| Book Value | 130 | 157 | 181 | 217 |
| EBITDA/tonne | 1,461 | 1,298 | 1,315 | 1,393 |
| Returns (%) | | | | |
| RoCE | 12.5 | 13.6 | 14.6 | 18.6 |
| RoE | 19.5 | 19.0 | 17.2 | 21.0 |
| Turnover ratios (x) | | | | |
| Asset Turnover (Gross block) | 0.5 | 0.5 | 0.5 | 0.6 |
| Inventory (days) | 79 | 76 | 75 | 75 |
| Receivables (days) | 48 | 53 | 53 | 53 |
| Payables (days) | 30 | 34 | 33 | 33 |
| WCC (days) | 97 | 95 | 95 | 95 |

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Rating Guides

| Rating | Expected absolute returns (%) over 12 months |
|--------|--|
| BUY | >10% |
| HOLD | -5% to 10% |
| REDUCE | >-5% |

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