

## RAMCO CEMENTS

CEMENT

# BUY

Target Price: Rs 597

### Rapid deleveraging to boost equity

Ramco Cements further repaid Rs 3 bn debt during the quarter on the back of strong free cash flow generation. Debt repayment has been faster than our expectation due to savings in working capital. We now expect total debt reduction of Rs 8 bn vs. Rs 5 bn earlier. Net debt to reduce to Rs 14 bn/ 7 bn by end FY17/18 from a peak of Rs 29 bn in FY14.

We have been arguing that rapid deleveraging led by strong free cash flow will enhance the equity value (refer our previous reports for details: [Ramco Cements: Entering the deleveraging cycle](#) and [Cement Sector: 4 key triggers](#)).

CMP : Rs 536  
 Potential Upside : 11%

#### MARKET DATA

No. of Shares : 238 mn  
 Free Float : 58%  
 Market Cap : Rs 128 bn  
 52-week High / Low : Rs 595 / Rs 300  
 Avg. Daily vol. (6mth) : 279,343 shares  
 Bloomberg Code : TRCL IB Equity  
 Promoters Holding : 42%  
 FII / DII : 16% / 23%

### Other highlights

- ◆ Q1FY17 EBITDA at Rs 3 bn (up 21% YoY) was broadly in line with our estimate, driven by 15% YoY volume growth (sales volume of 2.1 mnt). Ramco pushed additional volumes in Eastern region mainly in Odisha and West Bengal. Avg. EBITDA/ton was Rs 1,370 (vs. Rs 1,310 in Q1FY16 and Rs 1,630 in Q4FY16)
- ◆ **Realization:** Cement realization declined Rs 280/ton (6%) QoQ to Rs 4,600/ton due to correction in cement prices in Andhra Pradesh/Telangana regions. However, cement price drops in Andhra/ Telangana regions during Q1FY17 have fully reversed on the back of consecutive price hikes. Cement prices in Tamil Nadu are stable
- ◆ **Cost:** Total operating cost was flat QoQ. Higher pet-coke price is likely to increase power and fuel cost in H2
- ◆ We raise our EPS estimate for FY17/18 by 9% to Rs 28/33 due to higher volume growth assumption. We also raise our target FY18 EV/EBITDA multiple to 10x from 9x to reflect higher-than-expected decrease in debt level. Reiterate **BUY** with revised target price of Rs 597 (Rs 503 earlier)

### Financial summary (Standalone)

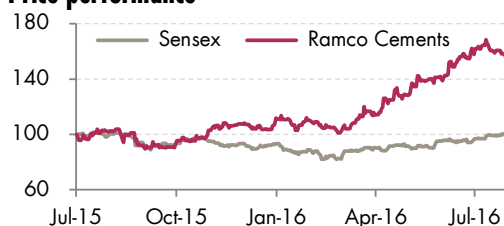
Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	34,969	35,044	39,577	45,332
EBITDA (Rs mn)	7,889	11,132	13,128	14,539
Adj PAT (Rs mn)	2,398	5,346	6,626	7,968
Con. EPS* (Rs)	-	-	25	31
EPS (Rs)	10	22	28	33
Change YOY (%)	132	123	24	20
P/E (x)	53	24	19	16
RoE (%)	9	19	20	20
EV/E (x)	19.6	13.3	10.7	9.1
DPS (Rs)	2	3	4	4

Source: \*Consensus broker estimates, Company, Axis Capital

### Key drivers

	FY16	FY17E	FY18E
Volumes (mnt)	7.2	8.2	9.0
% growth (YoY)	-6%	13%	10%
Avg. realn (Rs/t)	4,842	4,842	5,042
EBITDA (Rs/t)	1,480	1,427	1,437

### Price performance



**Exhibit 1: Results update**

(Rs mn)	Quarter ended					12 months ended		
	Jun-16	Jun-15	% Chg	Mar-16	% Chg	FY17E	FY16	% Chg
<b>Net Sales</b>	<b>9,721</b>	<b>9,509</b>	<b>2.2</b>	<b>10,149</b>	<b>(4.2)</b>	<b>39,577</b>	<b>35,044</b>	<b>12.9</b>
EBIDTA	3,042	2,514	21.0	3,453	(11.9)	12,305	11,132	10.5
Other income	19	18	2.2	28	(33.6)	157	409	(61.6)
<b>PBIDT</b>	<b>3,061</b>	<b>2,532</b>	<b>20.9</b>	<b>3,481</b>	<b>(12.1)</b>	<b>12,462</b>	<b>11,541</b>	<b>8.0</b>
Depreciation	663	668	(0.7)	652	1.7	2,681	2,686	(0.2)
Interest	291	488	(40.2)	444	(34.4)	1,138	1,821	(37.5)
<b>PBT</b>	<b>2,106</b>	<b>1,377</b>	<b>53.0</b>	<b>2,385</b>	<b>(11.7)</b>	<b>8,642</b>	<b>7,034</b>	<b>22.9</b>
Tax	547	402	36.1	534	2.4	2,840	1,688	68.3
<b>Adjusted PAT</b>	<b>1,559</b>	<b>975</b>	<b>59.9</b>	<b>1,851</b>	<b>(15.8)</b>	<b>5,803</b>	<b>5,346</b>	<b>8.5</b>
Extra ordinary income/ (exp.)	-	-	-	193	-	-	238	-
<b>Reported PAT</b>	<b>1,559</b>	<b>975</b>	<b>59.9</b>	<b>2,044</b>	<b>(23.7)</b>	<b>5,803</b>	<b>5,585</b>	<b>3.9</b>
No. of shares (mn)	238.0	238.0	-	238.0	-	238.1	238.1	-
EBIDTA margins (%)	31.3	26.4	-	34.0	-	31.1	31.8	-
PBIDT margins (%)	31.5	26.6	-	34.3	-	31.5	32.9	-
<b>EPS - annualized (Rs.)</b>	<b>26.2</b>	<b>16.4</b>	<b>59.9</b>	<b>31.1</b>	<b>(15.8)</b>	<b>24.4</b>	<b>22.5</b>	<b>8.5</b>

Source: Company, Axis Capital

**Financial summary (Standalone)****Profit & loss (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	34,969	35,044	39,577	45,332
Other operating income	2,077	1,335	1,469	1,616
<b>Total operating income</b>	<b>37,046</b>	<b>36,380</b>	<b>41,045</b>	<b>46,948</b>
Cost of goods sold	(9,648)	(8,377)	(9,994)	(11,417)
Gross profit	27,398	28,002	31,051	35,531
<i>Gross margin (%)</i>	<i>78</i>	<i>80</i>	<i>78</i>	<i>78</i>
Total operating expenses	(19,509)	(16,871)	(17,923)	(20,991)
<b>EBITDA</b>	<b>7,889</b>	<b>11,132</b>	<b>13,128</b>	<b>14,539</b>
<i>EBITDA margin (%)</i>	<i>23</i>	<i>32</i>	<i>33</i>	<i>32</i>
Depreciation	(2,512)	(2,686)	(2,681)	(2,734)
<b>EBIT</b>	<b>5,376</b>	<b>8,446</b>	<b>10,447</b>	<b>11,806</b>
Net interest	(1,951)	(1,821)	(1,138)	(578)
Other income	183	409	157	156
<b>Profit before tax</b>	<b>3,608</b>	<b>7,034</b>	<b>9,465</b>	<b>11,383</b>
Total taxation	(1,210)	(1,688)	(2,840)	(3,415)
<i>Tax rate (%)</i>	<i>34</i>	<i>24</i>	<i>30</i>	<i>30</i>
Profit after tax	2,398	5,346	6,626	7,968
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	2,398	5,346	6,626	7,968
<i>Adj. PAT margin (%)</i>	<i>7</i>	<i>15</i>	<i>17</i>	<i>18</i>
Net non-recurring items	-	-	-	-
Reported net profit	2,398	5,346	6,626	7,968

**Balance sheet (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	238	238	238	238
Reserves & surplus	26,024	30,502	36,020	42,770
Net worth	26,262	30,740	36,258	43,008
Borrowing	27,342	22,229	14,229	7,229
Other non-current liabilities	8,276	8,528	8,528	8,528
<b>Total liabilities</b>	<b>70,748</b>	<b>70,249</b>	<b>68,193</b>	<b>68,976</b>
Gross fixed assets	72,090	75,644	76,612	78,112
Less: Depreciation	(23,265)	(26,321)	(29,002)	(31,736)
Net fixed assets	48,825	49,323	47,610	46,376
Add: Capital WIP	2,627	1,468	2,000	2,000
Total fixed assets	51,452	50,792	49,610	48,376
Total Investment	3,577	2,551	2,551	2,551
Inventory	5,217	5,502	5,421	6,210
Debtors	3,802	4,685	4,337	4,968
Cash & bank	629	2,033	1,936	1,902
Loans & advances	6,072	4,686	4,337	4,968
Current liabilities	8,868	8,752	9,178	10,211
Net current assets	6,851	8,154	6,853	7,837
Other non-current assets	-	-	-	-
<b>Total assets</b>	<b>70,748</b>	<b>70,249</b>	<b>68,193</b>	<b>68,976</b>

Source: Company, Axis Capital

**Cash flow (Rs mn)**

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	3,608	7,034	9,465	11,383
Depreciation & Amortisation	(2,512)	(2,686)	(2,681)	(2,734)
<i>Chg in working capital</i>	<i>1,529</i>	<i>101</i>	<i>1,203</i>	<i>(1,017)</i>
<b>Cash flow from operations</b>	<b>8,390</b>	<b>9,955</b>	<b>11,649</b>	<b>10,263</b>
<i>Capital expenditure</i>	<i>(3,922)</i>	<i>(2,396)</i>	<i>(1,500)</i>	<i>(1,500)</i>
<b>Cash flow from investing</b>	<b>(4,665)</b>	<b>(1,370)</b>	<b>(1,500)</b>	<b>(1,500)</b>
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(1,946)</i>	<i>(5,113)</i>	<i>(8,000)</i>	<i>(7,000)</i>
<i>Dividend paid</i>	<i>(430)</i>	<i>(861)</i>	<i>(1,107)</i>	<i>(1,218)</i>
<b>Cash flow from financing</b>	<b>(4,328)</b>	<b>(7,794)</b>	<b>(10,246)</b>	<b>(8,797)</b>
Net chg in cash	(603)	791	(97)	(33)

**Key ratios**

Y/E March	FY15	FY16	FY17E	FY18E
<b>OPERATIONAL</b>				
FDEPS (Rs)	10	22	28	33
CEPS (Rs)	21	34	39	45
DPS (Rs)	2	3	4	4
Dividend payout ratio (%)	15	14	14	13
<b>GROWTH</b>				
Net sales (%)	(1)	-	13	15
EBITDA (%)	29	41	18	11
Adj net profit (%)	132	123	24	20
FDEPS (%)	132	123	24	20
<b>PERFORMANCE</b>				
RoE (%)	9	19	20	20
RoCE (%)	9	14	18	20
<b>EFFICIENCY</b>				
Asset turnover (x)	0.7	0.7	0.8	0.9
Sales/ total assets (x)	0.5	0.5	0.6	0.7
Working capital/ sales (x)	0.2	0.2	0.1	0.1
Receivable days	40	49	40	40
Inventory days	65	80	71	70
Payable days	106	120	120	115
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	1.1	0.8	0.4	0.2
Net debt/ equity (x)	1.0	0.7	0.4	0.1
Current ratio (x)	1.8	1.9	1.7	1.8
Interest cover (x)	2.8	4.6	9.2	20.4
<b>VALUATION</b>				
PE (x)	53	24	19	16
EV/ EBITDA (x)	19.6	13.3	10.7	9.1
EV/ Net sales (x)	4.4	4.2	3.5	2.9
PB (x)	5	4	4	3
Dividend yield (%)	-	1	1	1
Free cash flow yield (%)	4	6	8	7

Source: Company, Axis Capital

Axis Capital Limited is registered with the Securities & Exchange Board of India (SEBI) as "Research Analyst" with SEBI-registration number INH000002434 and which registration is valid up to 03/12/2020.

### **DISCLAIMERS / DISCLOSURES**

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Capital Limited (ACL), the Research Entity (RE) as defined in the Regulations, is engaged in the business of Investment banking, Stock broking and Distribution of Mutual Fund products.
2. ACL is registered with the Securities & Exchange Board of India (SEBI) for its investment banking and stockbroking business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products.
3. ACL, the RE has applied for registration with the SEBI as per the Regulations.
4. ACL has no material adverse disciplinary history as on the date of publication of this report
5. ACL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ACL may have a conflict of interest that may affect the objectivity of this report. Investors should not consider this report as the only factor in making their investment decision.
6. The research analyst or any of his / her family members or relatives may have financial interest or any other material conflict of interest in the subject company of this research report.
7. The research analyst has not served as director / officer, etc. in the subject company in the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report.
8. The research analyst or any of his / her family members or relatives may have actual / beneficial ownership exceeding 1% or more, of the securities of the subject company as at the end of the month immediately preceding the date of publication of this research report.
9. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report ACL or any of its associates may have:
  - i. Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;
  - ii. Managed or co-managed public offering of the securities from the subject company of this research report and / or;
  - iii. Received compensation for products or services other than investment banking, merchant banking or stockbroking services from the subject company of this research report and / or;
  - iv. Received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report
10. The other disclosures / terms and conditions on which this research report is being published are as under:
  - i. This document is prepared for the sole use of the clients or prospective clients of ACL who are / proposed to be registered in India. It may be also be accessed through financial websites by those persons who are usually enabled to access such websites. It is not for sale or distribution to the general public.
  - ii. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision.
  - iii. Nothing in this document should be construed as investment or financial advice, or advice to buy / sell or solicitation to buy / sell the securities of companies referred to in this document.
  - iv. The intent of this document is not to be recommendatory in nature
  - v. The investment discussed or views expressed may not be suitable for all investors
  - vi. The investment discussed or views expressed may not be suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the suitability, merits and risks of such an investment.
  - vii. ACL has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document
  - viii. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval
  - ix. Subject to the disclosures made herein above, ACL, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct entity, independent of each other. The recipient shall take this into account before interpreting the document.
  - x. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ACL. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein
  - xi. This document is being supplied to the recipient solely for information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose and the same shall be void where prohibited.
  - xii. Neither the whole nor part of this document or copy thereof may be taken or transmitted into the United States of America (to U.S. Persons), Canada, Japan and the People's Republic of China (China) or distributed or redistributed, directly or indirectly, in the United States of America, Canada, Japan and China or to any resident thereof.
  - xiii. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document may come shall inform themselves about, and observe, any such restrictions.
  - xiv. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including but not limited to loss of capital, revenue or profits that may arise from or in connection with the use of the information.
  - xv. Copyright in this document vests exclusively with Axis Capital Limited.

## Axis Capital Limited

Axis House, C2, Wadia International Centre, P.B Marg, Worli, Mumbai 400 025, India.

**Tel:- Board** +91-22 4325 2525; **Dealing** +91-22 2438 8861-69;

**Fax:- Research** +91-22 4325 1100; **Dealing** +91-22 4325 3500

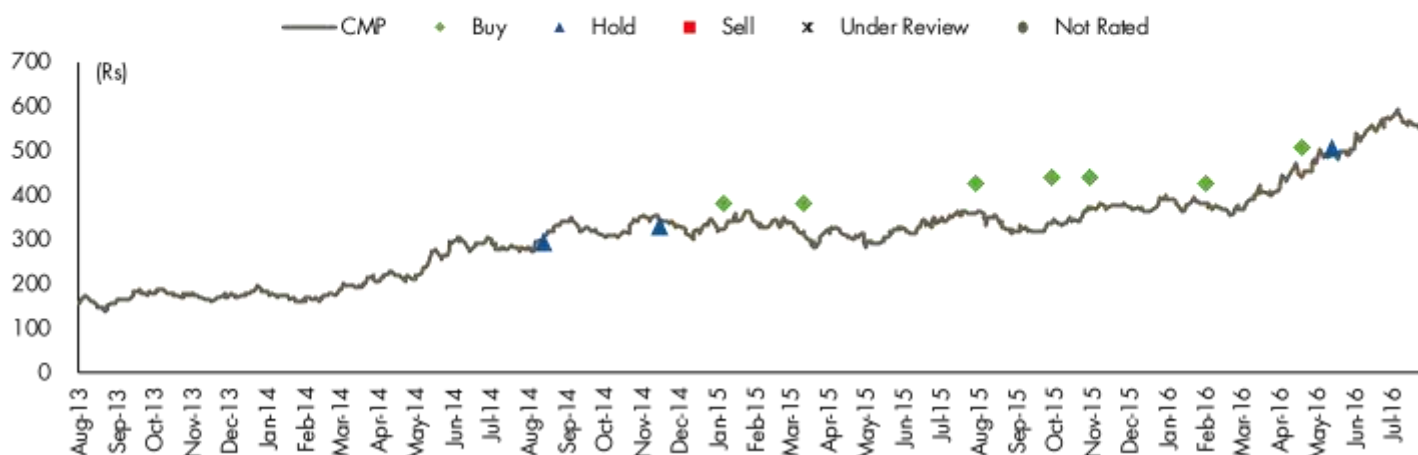
### DEFINITION OF RATINGS

Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

### ANALYST DISCLOSURES

1. The analyst(s) declares that neither he/ his relatives have a Beneficial or Actual ownership of > 1% of equity of subject company/ companies
2. The analyst(s) declares that he has no material conflict of interest with the subject company/ companies of this report

### Ramco Cement (MSCM.BO, TRCL IN) Price and Recommendation History



Date	Target Price	Reco
19-Aug-14	291	Hold
21-Nov-14	330	Hold
12-Jan-15	379	Buy
18-Mar-15	379	Buy
5-Aug-15	425	Buy
5-Oct-15	435	Buy
6-Oct-15	435	Buy
6-Nov-15	435	Buy
8-Feb-16	425	BUY
26-Apr-16	503	BUY
20-May-16	503	Hold

Source: Axis Capital