

RAMCO CEMENTS

CEMENT

HOLD

Target Price: Rs 503

Deleveraging story playing out

Ramco Cements' total debt reduced by a massive Rs 5 bn to Rs 22 bn in FY16. The company generated total EBITDA of Rs 11.5 bn in FY16 and total capex incurred was only Rs 2.2 bn. We have been arguing that rapid deleveraging led by strong free cash flows will enhance equity value. We expect a further Rs 5 bn reduction in debt in FY17 as there is no major capex requirement.

Refer our previous reports for details and outlook on Cement sector: [Ramco Cements: Entering the deleveraging cycle](#) and [Cement Sector: 4 key triggers](#).

CMP : Rs 491
Potential Upside : 3%

MARKET DATA

No. of Shares : 238 mn
Free Float : 58%
Market Cap : Rs 117 bn
52-week High / Low : Rs 515 / Rs 293
Avg. Daily vol. (6mth) : 251,486 shares
Bloomberg Code : TRCL IB Equity
Promoters Holding : 42%
FII / DII : 14% / 23%

Q4 performance

- ◆ EBITDA of Rs 3.5 bn was ahead of our and Street estimates due to lower costs. **EBITDA/ton was Rs 1,630/ton** vs. Rs 1,530/ton in Q3 and Rs 1,450/ton in Q4FY15
- ◆ **Costs:** Total COP declined by ~Rs 280/ton QoQ largely due to savings in power & fuel costs. Power & Fuel cost declined to Rs 620/ton vs. Rs 700/ton in Q3
- ◆ **Volumes:** Volume growth was 11% YoY with total sales volumes of 2.1 mn. Cement demand was strong in South region in Q4 led by demand recovery in Andhra and Telangana states
- ◆ **Realizations:** Cement realizations declined Rs 200/ton QoQ to Rs 4,854/ton due to correction in cement prices in AP/Telangana regions
- ◆ We maintain our EPS estimates for FY17/18 at Rs 25 and Rs 3. Downgrade to **HOLD** due to sharp increase in stock price with target price of R 503 (9x FY18E EV/EBITDA)

Financial summary (Standalone)

Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	34,969	35,401	39,668	44,920
EBITDA (Rs mn)	7,889	11,044	12,463	13,836
Adj PAT (Rs mn)	2,398	4,961	6,063	7,284
Con. EPS* (Rs)	-	-	19	23
EPS (Rs)	10	21	25	31
Change YOY (%)	132	107	22	20
P/E (x)	49	24	19	16
RoE (%)	9	17	18	18
EV/E (x)	18.2	12.4	10.5	9.0
DPS (Rs)	2	2	2	2

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY16	FY17E	FY18E
Volumes (mnt)	7.2	7.7	8.4
% growth (YoY)	-6%	7%	9%
Avg. realn (Rs/t)	5,000	5,140	5,340
EBITDA (Rs/t)	1,480	1,367	1,384

Price performance

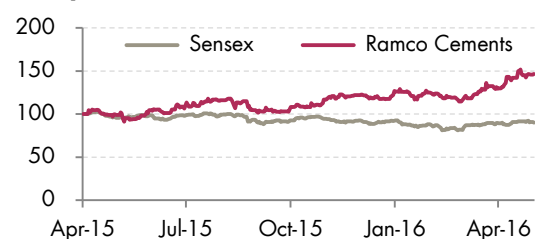


Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-16	Mar-15	% Chg	Dec-15	% Chg	FY17E	FY16	% Chg
Net Sales	10,149	9,971	1.8	8,209	23.6	39,668	35,401	12.1
EBIDTA	3,453	2,743	25.9	2,537	36.1	12,463	11,044	12.8
Other income	28	21	35.3	18	52.2	419	288	45.4
PBIDT	3,481	2,764	25.9	2,555	36.3	12,882	11,332	13.7
Depreciation	652	622	4.9	679	(4.0)	2,633	2,615	0.7
Interest	444	473	(6.2)	418	6.2	1,587	1,827	(13.1)
PBT	2,385	1,669	42.9	1,458	63.6	8,662	6,890	25.7
Tax	534	735	(27.3)	399	33.9	2,599	1,929	34.7
Adjusted PAT	1,851	934	98.2	1,059	74.8	6,063	4,961	22.2
Extra ordinary income/ (exp.)	193	0	-	119	62.9	0	0	-
Reported PAT	2,044	934	118.8	1,177	73.6	6,063	4,961	22.2
No. of shares (mn)	238.0	238.0	-	238.0	-	238.1	238.1	-
EBIDTA margins (%)	34.0	27.5	-	30.9	-	31.4	31.2	-
PBIDT margins (%)	34.3	27.7	-	31.1	-	32.5	32.0	-
EPS - annualized (Rs)	31.1	15.7	98.2	17.8	74.8	25.5	20.8	22.2

Source: Company, Axis Capital

Financial summary (Standalone)

Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	34,969	35,401	39,668	44,920
Other operating income	2,077	1,662	1,911	2,198
Total operating income	37,046	37,063	41,579	47,118
Cost of goods sold	(9,648)	(9,308)	(19,126)	(21,674)
Gross profit	27,398	27,755	22,453	25,444
<i>Gross margin (%)</i>	<i>78</i>	<i>78</i>	<i>57</i>	<i>57</i>
Total operating expenses	(19,509)	(16,711)	(9,990)	(11,607)
EBITDA	7,889	11,044	12,463	13,836
<i>EBITDA margin (%)</i>	<i>23</i>	<i>31</i>	<i>31</i>	<i>31</i>
Depreciation	(2,512)	(2,615)	(2,633)	(2,685)
EBIT	5,376	8,429	9,830	11,151
Net interest	(1,951)	(1,827)	(1,587)	(1,347)
Other income	183	288	419	602
Profit before tax	3,608	6,890	8,662	10,405
Total taxation	(1,210)	(1,929)	(2,599)	(3,122)
<i>Tax rate (%)</i>	<i>34</i>	<i>28</i>	<i>30</i>	<i>30</i>
Profit after tax	2,398	4,961	6,063	7,284
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	2,398	4,961	6,063	7,284
<i>Adj. PAT margin (%)</i>	<i>7</i>	<i>14</i>	<i>15</i>	<i>16</i>
Net non-recurring items	-	-	-	-
Reported net profit	2,398	4,961	6,063	7,284

Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	238	238	238	238
Reserves & surplus	26,024	30,431	35,886	42,499
Net worth	26,262	30,669	36,124	42,738
Borrowing	27,342	22,842	19,842	16,842
Other non-current liabilities	8,276	8,276	8,276	8,276
Total liabilities	70,748	68,559	71,820	76,518
Gross fixed assets	72,090	74,717	75,217	76,717
Less: Depreciation	(23,265)	(25,880)	(28,513)	(31,198)
Net fixed assets	48,825	48,837	46,704	45,519
Add: Capital WIP	2,627	1,000	2,000	2,000
Total fixed assets	51,452	49,837	48,704	47,519
Total Investment	3,577	3,577	3,577	3,577
Inventory	5,217	5,819	6,521	7,384
Debtors	3,802	2,619	2,934	3,323
Cash & bank	629	2,827	5,736	9,792
Loans & advances	6,072	3,880	4,347	4,923
Current liabilities	8,868	6,772	7,578	8,662
Net current assets	6,851	8,373	11,960	16,759
Other non-current assets	-	-	-	-
Total assets	70,748	68,559	71,820	76,518

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	3,608	6,890	8,662	10,405
Depreciation & Amortisation	(2,512)	(2,615)	(2,633)	(2,685)
<i>Chg in working capital</i>	<i>1,529</i>	<i>677</i>	<i>(678)</i>	<i>(743)</i>
Cash flow from operations	8,390	10,080	9,605	10,573
<i>Capital expenditure</i>	<i>(3,922)</i>	<i>(1,000)</i>	<i>(1,500)</i>	<i>(1,500)</i>
Cash flow from investing	(4,665)	(1,000)	(1,500)	(1,500)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(1,946)</i>	<i>(4,500)</i>	<i>(3,000)</i>	<i>(3,000)</i>
<i>Dividend paid</i>	<i>(430)</i>	<i>(554)</i>	<i>(609)</i>	<i>(670)</i>
Cash flow from financing	(4,328)	(6,881)	(5,196)	(5,017)
Net chg in cash	(603)	2,199	2,909	4,056

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	10	21	25	31
CEPS (Rs)	21	32	37	42
DPS (Rs)	2	2	2	2
Dividend payout ratio (%)	15	10	9	8
GROWTH				
Net sales (%)	(1)	1	12	13
EBITDA (%)	29	40	13	11
Adj net profit (%)	132	107	22	20
FDEPS (%)	132	107	22	20
PERFORMANCE				
RoE (%)	9	17	18	18
RoCE (%)	9	14	16	18
EFFICIENCY				
Asset turnover (x)	0.7	0.7	0.8	0.9
Sales/ total assets (x)	0.5	0.5	0.6	0.6
Working capital/ sales (x)	0.2	0.2	0.1	0.1
Receivable days	40	27	27	27
Inventory days	65	82	82	81
Payable days	106	95	95	95
FINANCIAL STABILITY				
Total debt/ equity (x)	1.1	0.8	0.6	0.4
Net debt/ equity (x)	1.0	0.7	0.4	0.2
Current ratio (x)	1.8	2.2	2.6	2.9
Interest cover (x)	2.8	4.6	6.2	8.3
VALUATION				
PE (x)	49	24	19	16
EV/ EBITDA (x)	18.2	12.4	10.5	9.0
EV/ Net sales (x)	4.1	3.9	3.3	2.8
PB (x)	4	4	3	3
Dividend yield (%)	-	-	-	-
Free cash flow yield (%)	4	8	7	8

Source: Company, Axis Capital

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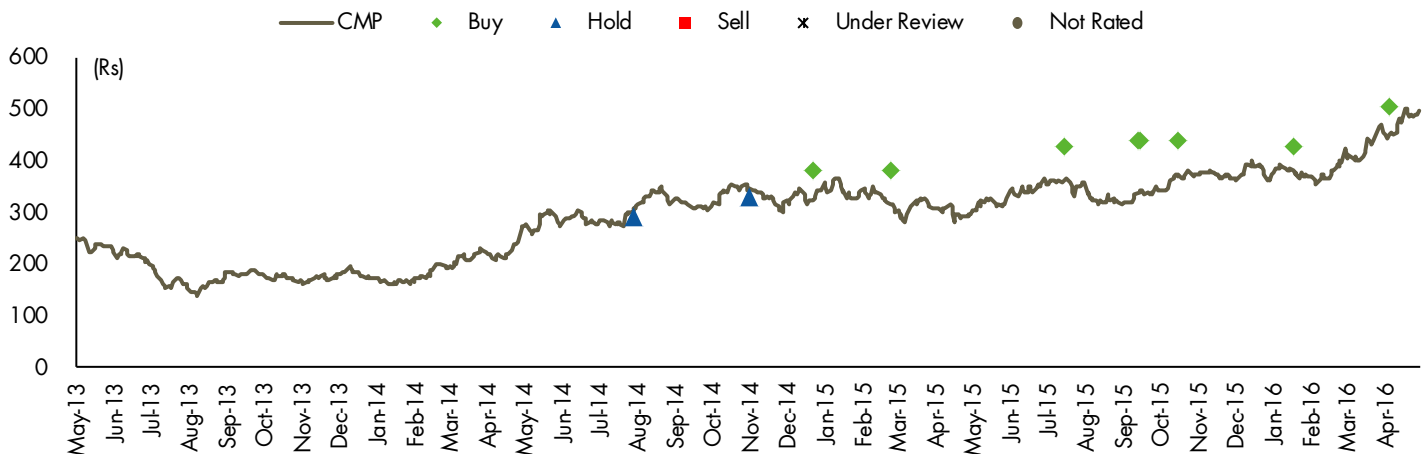
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Ratings	Expected absolute returns over 12 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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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

Source: Axis Capital