

The Ramco Cements | HOLD



Volume surprise positively; capacity expansion to drive growth

The Ramco Cement Ltd. (Ramco) reported 22% YoY revenue growth in 4QFY19 primarily on cement volume growth of 20%; growing on improvement in sales volume in Southern and Eastern regions. Realisations improved by 1.5% YoY (+5.6% sequentially). Blended EBITDA/t declined marginally (-1% YoY) as increase in power/fuel cost was offset by improvement in realisation. Wind farm revenues for FY19 declined on lower power generation. Operating cash flow declined on higher working capital and gross debt grew by INR 5.16bn to INR 16.4bn in FY19. The company is in the process of expanding the capacity from 16.5 MTPA to 23 MTPA by 2020, through a mix of greenfield and brownfield projects across South (4.3MTPA) and East (2MTPA). While Ramco has the balance sheet strength to execute the expansion, we see limited risk reward at current levels despite factoring in 28% EBITDA CAGR FY19-21. We continue to value the stock at 10x EVE. Maintain Hold with a TP of INR 660 (Mar'20).

- 20% volume growth drives revenues:** Revenue for the quarter stood at INR 15.26bn, up 22% YoY, driven by volumes of 3.29mnT, +20.2% YoY (7.9% higher than JMFe). Sale volumes have grown both in southern and eastern markets on strong demand from retail, infrastructure and affordable segment. Cement realisations came in at INR 4,640/t, 1.5% YoY (sequential growth of 5.6%), in-line with JMFe. The realisations grew on account of increase in prices in south. Company reported a wind power revenue of INR 28mn in 4QFY19 (vs INR12mn in 4QFY18), on higher power unit generation (21.9 mn units vs 19.9mn units). Ramco windfarms generated a revenue of INR 15.4mn in 4Q (4.8% YoY) generating 3.7mn units of electricity (vs. 3.7 mn units last year).
- EBITDA/t misses estimates on higher expenses:** EBITDA for 4QFY19 - at INR 3.25bn; - 19.5% YoY (vs. INR 3.14bn – 3.3% lower than JMFe). Other expenses were higher on account of INR 286.4mn of contribution to CM's relief fund and political parties (vs. INR 67.5mn last year). Blended EBITDA/t for the quarter at INR 988/t remained stable YoY (-4.3% vs JMFe). Lower than expected EBITDA/t was primarily on lower higher other expenses. Realisation improvement during 4Q (INR 72/t impact) was offset by escalations in power/fuel costs (-INR 97/t impact). Power and fuel costs increased on higher petcoke/coal prices. Interest cost for the period has increased to INR128mn vs INR105mn in 4QFY18. Implied tax rate for the quarter was 33%. PAT for the quarter was reported at INR 1.65bn, up 52.3% YoY. Full year FY19 EBITDA at INR 10.37bn declined by 5.7% YoY while blended EBITDA/t at INR 932/t declined by 21%. Company incurred INR 421.7mn (vs. INR 109.3mn YoY) in FY19 on contribution of CM's relief fund and political parties.
- Other details:** Expansion in Kolghat (1MTPA), Haridaspur (0.9MTPA) and Vizag (1.1MTPA) is expected to be commissioned in May'19, Oct'19 and Dec'19 respectively. Projects in Jayanthipuram (1.5MTPA clinker) and Kurnool (2.25/1MTPA clinker/grinding) is expected to be commissioned by FY21. Company has incurred a capex of INR 12.06bn in FY19
- Maintain HOLD:** We continue to value the stock at 10x EVE and roll forward the target price. We maintain HOLD with a TP of INR 660 (Mar'20).

Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	660
Upside/(Downside)	-13.9%
Previous Price Target	570
Change	15.8%

Key Data – TRCL IN

Current Market Price	INR767
Market cap (bn)	INR180.7/US\$2.6
Free Float	50%
Shares in issue (mn)	235.6
Diluted share (mn)	235.6
3-mon avg daily val (mn)	INR296.6/US\$4.3
52-week range	829/546
Sensex/Nifty	39,110/11,738
INR/US\$	69.7

Price Performance

%	1M	6M	12M
Absolute	0.7	23.7	-3.1
Relative*	-0.5	10.6	-14.2

* To the BSE Sensex

Financial Summary

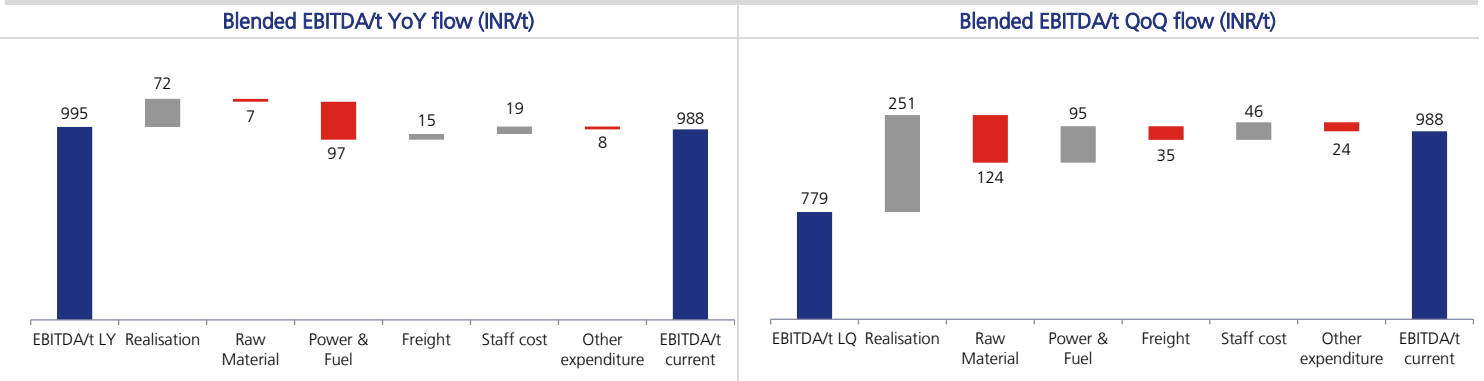
	(INR mn)				
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E
Net Sales	39,469	43,181	50,602	59,976	71,466
Sales Growth (%)	10.9	9.4	17.2	18.5	19.2
EBITDA	12,077	11,127	10,445	14,125	17,076
EBITDA Margin (%)	30.4	25.1	20.2	23.5	23.8
Adjusted Net Profit	6,627	5,642	5,107	7,480	9,997
Diluted EPS (INR)	27.8	23.9	21.7	31.8	42.4
Diluted EPS Growth (%)	21.6	-14.0	-9.5	46.5	33.6
ROIC (%)	14.6	12.0	9.8	13.2	15.8
ROE (%)	19.1	14.3	11.8	15.4	18.0
P/E (x)	27.6	32.0	35.4	24.2	18.1
P/B (x)	4.8	4.4	4.0	3.5	3.0
EV/EBITDA (x)	16.1	17.2	18.8	13.9	11.7
Dividend Yield (%)	0.4	0.4	0.4	0.6	0.8

Source: Company data, JM Financial. Note: Valuations as of 22/May/2019

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

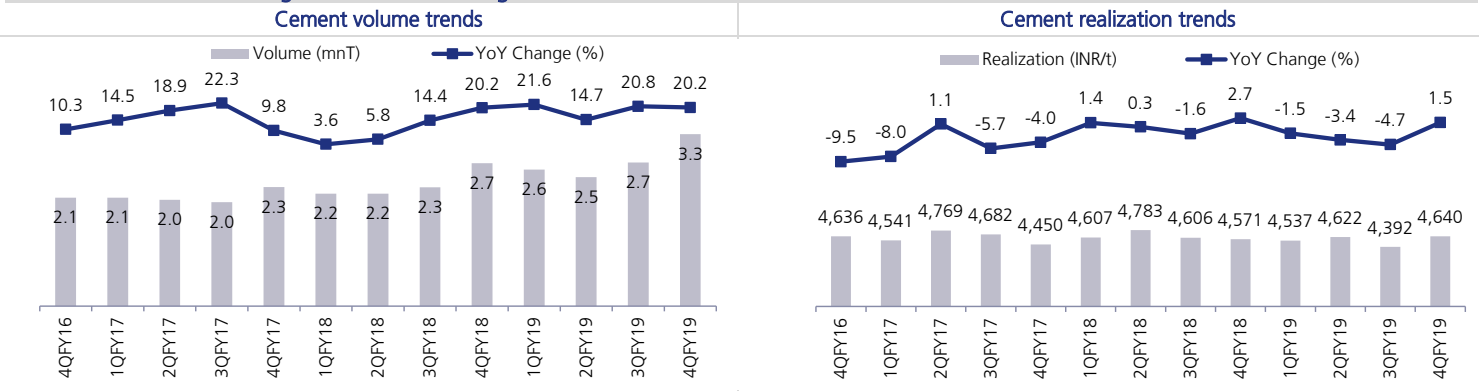
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. EBITDA/t flow



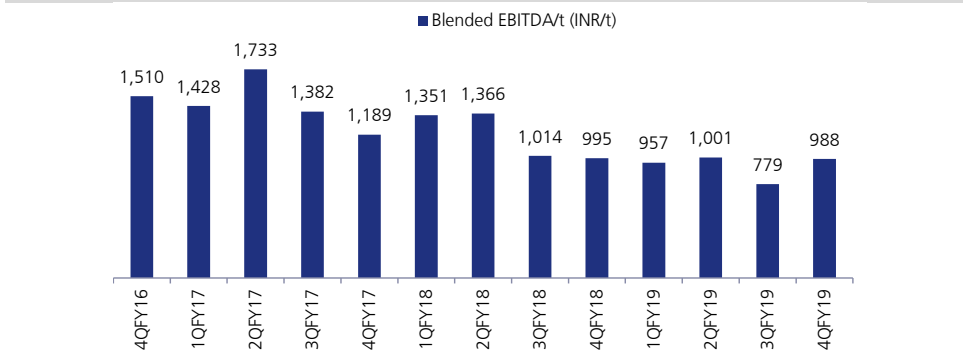
Source: Company, JM Financial

Exhibit 2. Cement volume growth aids revenue growth



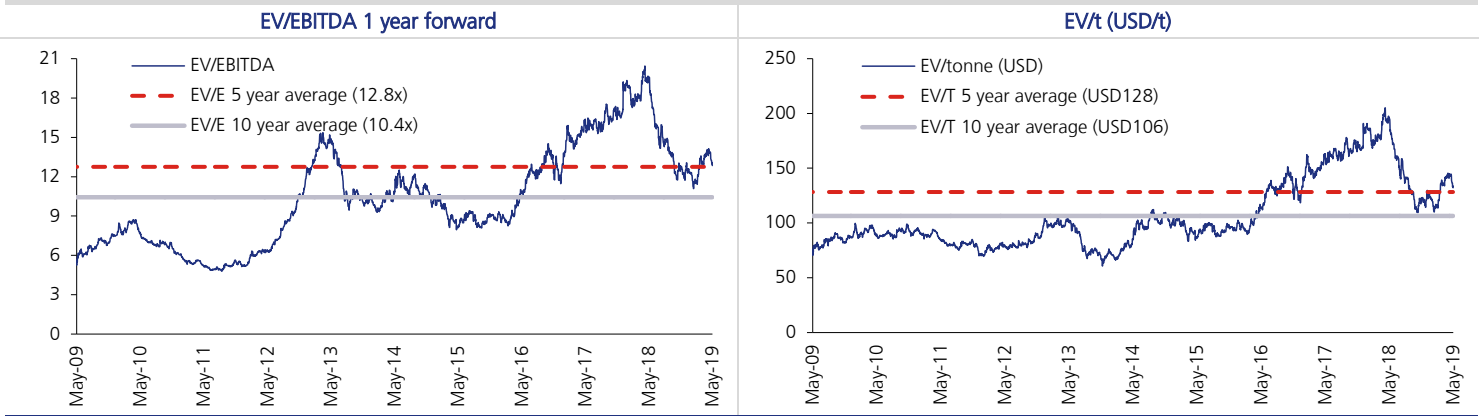
Source: Company, JM Financial

Exhibit 3. EBITDA/t trends



Source: Company, JM Financial

Exhibit 4. Valuation charts



Source: Company, JM Financial

Exhibit 5. Estimate revision

	Old Estimates		Revised Estimates		% Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net sales	59,571	71,005	60,126	71,645	0.9%	0.9%
EBITDA	13,461	16,294	14,125	17,076	4.9%	4.8%
EBITDA / tonne (Cement)	996	1,059	1,043	1,107	4.7%	4.5%
Depreciation	3,497	2,619	3,472	2,636	-0.7%	0.6%
Interest cost	778	1,154	1,143	1,620	47.0%	40.3%
Adjusted PAT	7,235	9,769	7,480	9,997	3.4%	2.3%
EPS (Rs)	30.7	41.5	31.8	42.4	3.4%	2.3%

Source: Company, JM Financial

Exhibit 6. Results in brief

	4QFY19	4QFY18	%YoY	3QFY19	%QoQ	4QFY19E	% Diff	FY19	FY18	%YoY
Net Sales(excluding excise)	15,265	12,508	22.0	12,065	26.5	14,089	8.4	50,602	43,181	17.2
Other Operating Income	59	40	48.1	39	50.4	48		860	882	-2.5
Total Revenues	15,324	12,548	22.1	12,104	26.6	14,136	8.4	51,463	44,064	16.8
Expenditure	12,073	9,826	22.9	9,965	21.2	10,988	9.9	41,097	33,069	24.3
EBITDA	3,251	2,722	19.5	2,140	51.9	3,148	3.3	10,365	10,994	-5.7
% margin	21.2	21.7	-50 bps	17.7	350 bps	22.3	-105 bps	20.1	25.0	-480 bps
Other income	111	190	-41.9	66	68.4	80	38.1	284	366	-22.4
Interest	128	105	22.7	135	-4.8	150	-14.5	509	592	-14.1
Depreciation	767	754	1.7	756	1.5	760	0.9	2,985	2,922	2.2
PBT	2,467	2,053	20.1	1,315	87.6	2,318	6.4	7,156	7,847	-8.8
Tax	813	967	-15.9	304	167.2	463	75.5	2,097	2,290	-8.4
% tax rate	33.0	47.1		23.1		20.0		29.3	29.2	
PAT (before Associate/MI)	1,654	1,086	52.3	1,011	63.6	1,855	-10.8	5,059	5,557	-9.0
Share of Profit from Associates	0	0		0		0		0	0	
MI	0	0		0		0		0	0	
PAT (Adjusted)	1,654	1,086	52.3	1,011	63.6	1,855	-10.8	5,059	5,557	-9.0
Extraordinary items	0	0		0		0		0	0	
PAT (Reported)	1,654	1,086	52.3	1,011	63.6	1,855		5,059	5,557	-9.0
EPS (INR)	7.0	4.6	52.3	4.3	63.6	7.9		21.5	23.0	-6.6
Key Operational matrix										
Cement sales (mn tonnes)	3.29	2.74	20.2	2.75	19.8	3.05	7.9	11.12	9.31	19.4
Realisation (INR/tonne)	4,640	4,571	1.5	4,392	5.6	4,619	0.4	4,551	4,637	-1.9
Cement EBITDA INR/tonne	981	991	-1.1	776	26.3			884	1,083	-18.4
Blended EBITDA INR/tonne	988	995	-0.7	779	26.9	1,032	-4.3	932	1,181	-21.0

Source: Company, JM Financial

Exhibit 7. Expenses breakdown

	4QFY19	4QFY18	%YoY	3QFY19	%QoQ	4QFY19E	% Diff	FY19	FY18	%YoY
Raw material	2,481	2,281	8.8	1,979	25.4	2,228	11.3	8,286	7,667	8.1
Rs/tonne	754	834	-9.6	720	4.7	730	3.2	745	823	-9.5
Power and fuel	2,938	2,176	35.0	2,713	8.3	2,926	0.4	10,573	7,291	45.0
Rs/tonne	893	795	12.2	987	-9.6	959	-6.9	951	783	21.4
Freight	3,454	2,912	18.6	2,788	23.9	3,060	12.9	11,880	9,281	28.0
Rs/tonne	1,050	1,064	-1.4	1,015	3.5	1,003	4.7	1,068	997	7.2
(Inc)/dec in stock	324	32	925.6	23	1291.0	196	65.2	183	-161	-213.7
Rs/tonne	99	12	752.9	8	1061.4	64	53.2	16	-17	-195.2
Total Variable cost	9,197	7,401	24.3	7,503	22.6	8,410	9.4	30,922	24,078	28.4
Rs/tonne	2,795	2,705	3.3	2,731	2.3	2,757	1.4	2,781	2,586	7.5
Staff cost	823	738	11.6	813	1.3	836	-1.5	3,295	3,040	8.4
Rs/tonne	250	270	-7.2	296	-15.4	274	-8.7	296	326	-9.2
Other expenditure	2,053	1,687	21.7	1,649	24.5	1,742	17.8	6,881	5,952	15.6
Rs/tonne	624	617	1.2	600	4.0	571	9.2	619	639	-3.2
Total fixed cost	2,877	2,425	18.6	2,462	16.8	2,578	11.6	10,176	8,992	13.2
Rs/tonne	874	886	-1.3	896	-2.4	845	3.4	915	966	-5.2
Tot expenditure excluding excise	12,073	9,826	22.9	9,965	21.2	10,988	9.9	41,097	33,069	24.3
Cost Rs/tonne	3,670	3,591	2.2	3,627	1.2	3,603	1.9	3,696	3,551	4.1

Source: Company, JM Financial

Company background

- Established in 1961, Ramco Cements (formerly Madras Cements) is the largest cement producer in South India with an annual turnover of INR36bn (FY16). The company's current total cement production capacity is c.16.5MT. Ramco also operates one of the largest wind farms in the country.

Key investment arguments:

- 6.3MTPA expansion in pipeline expected to be commissioned by 2020: This includes i) expansion at its Vizag grinding unit from 0.9MTPA to 2MTPA; ii) expansion at the Kolaghat grinding unit from 0.9MTPA to 2MTPA; iii) new grinding unit at Odisha with capacity of 0.9MTPA; iv) Brownfield clinker expansion of 1.5MTPA in Jayanthipuram and; v) Greenfield integrated unit of 3.2MTPA (1.8MTPA clinker) in Kalavatala in AP. With this expansion, its overall capacity would stand enhanced from 16.5MTPA to 23MTPA. The estimated capex expected to be incurred is INR 34.3bn (USD 84/t), to be met through a mix of borrowings and internal accruals.
- South India to enter upcycle only by 2026:** Ramco is predominantly present in the South India market, which is saturated in terms of cement capacity. With the current capacity utilisation at sub-60% levels and highest expansion potential available in the region, we expect the region to enter an upcycle only by FY26. Additionally, the company is facing the near-term challenge of muted demand on sand shortage in TN (c.65% of the total capacity) as well as increasing pricing pressure. It has begun to expand its footprint in the high-growth East market through a mix of greenfield and brownfield expansions. The Eastern operations will form c.15% of its total capacity after expansion.
- Balance sheet remains strong: Ramco has reduced its debt over the last few years from INR 29bn in FY14 to INR 10bn in FY18. We expect the balance sheet, despite the capacity expansion, to remain stable at c.1x.

Key Risks

- With the expansion due to be commissioned, Ramco may capture the sizable incremental demand resulting from high growth in the southern/eastern region.

Valuation and View

- We value the stock at 10x EV/EBITDA to arrive at TP of INR 660. We maintain our HOLD rating on the stock.

Exhibit 8. Volume, realisation and cost outlook

	FY17	FY18	FY19	FY20E	FY21E
Cement Sales (mn tonnes)	8.3	9.3	11.1	12.6	14.5
YoY Growth (%)	16.0	11.5	19.4	13.7	14.8
Cement Realisations (INR/tonne)	4,557	4,573	4,573	4,656	4,842
YoY Growth (%)	-5.4	0.4	0.0	1.8	4.0
Power & Fuel (INR/tonne)	613	776	945	907	934
Freight (INR/tonne)	877	988	1,061	1,040	1,071
Raw Material (INR/tonne)	747	816	740	770	808
Cement EBIDTA (INR/tonne)	1,309	1,083	884	1,043	1,107

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
Net Sales	39,469	43,181	50,602	59,976	71,466	
Sales Growth	10.9%	9.4%	17.2%	18.5%	19.2%	
Other Operating Income	204	1,069	1,021	150	179	
Total Revenue	39,673	44,250	51,623	60,126	71,645	
Cost of Goods Sold/Op. Exp	6,440	7,506	8,469	10,049	12,097	
Personnel Cost	2,785	3,097	3,379	3,956	4,677	
Other Expenses	18,371	22,520	29,330	31,996	37,795	
EBITDA	12,077	11,127	10,445	14,125	17,076	
EBITDA Margin	30.4%	25.1%	20.2%	23.5%	23.8%	
EBITDA Growth	12.2%	-7.9%	-6.1%	35.2%	20.9%	
Depn. & Amort.	2,858	2,937	3,000	3,472	2,636	
EBIT	9,219	8,190	7,445	10,652	14,440	
Other Income	399	327	250	340	340	
Finance Cost	1,049	600	514	1,143	1,620	
PBT before Excep. & Forex	8,569	7,917	7,181	9,849	13,160	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	8,569	7,917	7,181	9,849	13,160	
Taxes	2,027	2,312	2,106	2,364	3,158	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	110	63	47	5	5	
Reported Net Profit	6,627	5,642	5,107	7,480	9,997	
Adjusted Net Profit	6,627	5,642	5,107	7,480	9,997	
Net Margin	16.7%	12.7%	9.9%	12.4%	14.0%	
Diluted Share Cap. (mn)	238.1	235.6	235.6	235.6	235.6	
Diluted EPS (INR)	27.8	23.9	21.7	31.8	42.4	
Diluted EPS Growth	21.6%	-14.0%	-9.5%	46.5%	33.6%	
Total Dividend + Tax	860	850	849	1,349	1,802	
Dividend Per Share (INR)	3.0	3.0	3.0	4.8	6.4	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
Profit before Tax	8,569	7,917	7,181	9,849	13,160	
Depn. & Amort.	2,858	2,935	3,000	3,472	2,636	
Net Interest Exp. / Inc. (-)	1,049	600	514	1,143	1,620	
Inc (-) / Dec in WCap.	851	1,564	-2,693	2,309	-395	
Others	-245	-46	0	0	0	
Taxes Paid	-1,908	-1,726	-2,106	-2,364	-3,158	
Operating Cash Flow	11,174	11,244	5,895	14,409	13,862	
Capex	-3,048	-4,945	-10,544	-11,547	-13,500	
Free Cash Flow	8,126	6,299	-4,649	2,863	362	
Inc (-) / Dec in Investments	-30	-101	-190	0	0	
Others	276	147	0	0	0	
Investing Cash Flow	-2,802	-4,900	-10,734	-11,547	-13,500	
Inc / Dec (-) in Capital	0	-1,681	0	0	0	
Dividend + Tax thereon	0	-852	-849	-1,349	-1,802	
Inc / Dec (-) in Loans	-5,545	-4,731	5,163	3,500	4,000	
Others	-2,541	921	274	-1,143	-1,620	
Financing Cash Flow	-8,086	-6,343	4,588	1,008	578	
Inc / Dec (-) in Cash	286	1	-250	3,871	940	
Opening Cash Balance	911	1,198	1,199	948	4,819	
Closing Cash Balance	1,198	1,199	948	4,819	5,759	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
Shareholders' Fund	37,955	41,126	45,370	51,502	59,696	
Share Capital	238	236	236	236	236	
Reserves & Surplus	37,717	40,891	45,134	51,266	59,461	
Preference Share Capital	0	0	0	0	0	
Minority Interest	19	40	47	52	57	
Total Loans	14,372	11,206	16,369	19,869	23,869	
Def. Tax Liab. / Assets (-)	7,215	7,887	8,646	8,646	8,646	
Total - Equity & Liab.	59,561	60,259	70,432	80,069	92,269	
Net Fixed Assets	51,851	54,981	62,526	70,600	81,464	
Gross Fixed Assets	79,350	84,481	88,248	1,05,088	1,22,338	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	28,701	31,249	34,248	37,721	40,356	
Capital WIP	1,203	1,749	8,526	3,232	-518	
Investments	3,562	2,397	2,587	2,587	2,587	
Current Assets	15,292	14,316	16,925	21,501	25,637	
Inventories	5,766	5,613	5,611	6,650	7,924	
Sundry Debtors	5,549	4,430	4,901	5,809	6,921	
Cash & Bank Balances	1,198	1,202	948	4,819	5,759	
Loans & Advances	422	388	439	642	764	
Other Current Assets	2,357	2,684	5,027	3,582	4,268	
Current Liab. & Prov.	11,145	11,436	11,606	14,620	17,420	
Current Liabilities	2,562	2,683	2,584	3,062	3,649	
Provisions & Others	8,582	8,753	9,022	11,557	13,771	
Net Current Assets	4,147	2,880	5,320	6,882	8,217	
Total - Assets	59,561	60,259	70,432	80,068	92,268	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
Net Margin	16.7%	12.7%	9.9%	12.4%	14.0%	
Asset Turnover (x)	0.7	0.7	0.8	0.8	0.8	
Leverage Factor (x)	1.7	1.5	1.5	1.6	1.5	
RoE	19.1%	14.3%	11.8%	15.4%	18.0%	

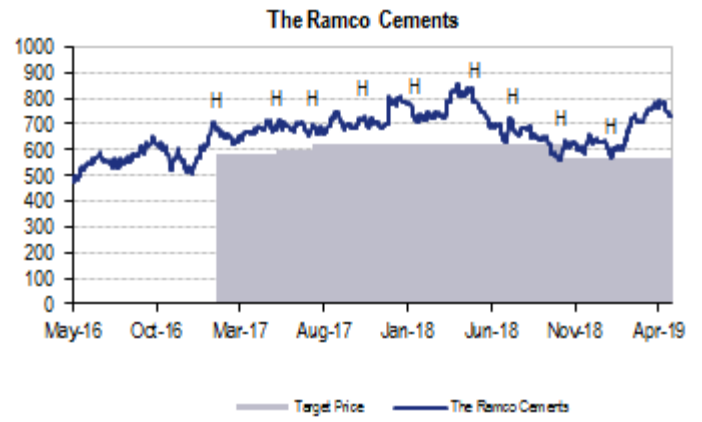
Key Ratios						
Y/E March	FY17A	FY18A	FY19A	FY20E	FY21E	
BV/Share (INR)	159.4	174.6	192.6	218.6	253.4	
ROIC	14.6%	12.0%	9.8%	13.2%	15.8%	
ROE	19.1%	14.3%	11.8%	15.4%	18.0%	
Net Debt/Equity (x)	0.3	0.2	0.3	0.3	0.3	
P/E (x)	27.6	32.0	35.4	24.2	18.1	
P/B (x)	4.8	4.4	4.0	3.5	3.0	
EV/EBITDA (x)	16.1	17.2	18.8	13.9	11.7	
EV/Sales (x)	4.9	4.3	3.8	3.3	2.8	
Debtor days	51	37	35	35	35	
Inventory days	53	46	40	40	40	
Creditor days	34	30	23	24	24	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
8-Feb-17	Hold	580	
30-May-17	Hold	600	3.4
4-Aug-17	Hold	625	4.2
3-Nov-17	Hold	625	0.0
6-Feb-18	Hold	625	0.0
24-May-18	Hold	620	-0.8
2-Aug-18	Hold	620	0.0
30-Oct-18	Hold	570	-8.1
29-Jan-19	Hold	570	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst – INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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