

The Ramco Cements | HOLD

Volumes surprise positively; EBITDA/t subdued on cost escalations

The Ramco Cement Ltd. (Ramco) reported 22% YoY revenue growth in 4QFY18 primarily on cement volume growth of 20% on the back of sales in East and improvement in sand availability in Tamil Nadu. Realisations grew 2% YoY (-0.8% sequentially). Blended EBITDA/t declined significantly (16% YoY) as the realisation growth and better operating leverage were offset by variable cost escalations. Wind farm revenues declined significantly (65% YoY) on lower realisations. The company is augmenting its grinding capacity from 16.5 MTPA to 19.6 MTPA via expansion in its West Bengal/Vizag/Odisha grinding units. Additionally, Ramco is setting up a 1.5MTPA of clinkerisation capacity in Jayanthipuram. We continue to value the stock at 10x EVE to arrive at a TP of INR 620 (Mar'19). We maintain Hold.

- 20% volume growth drives revenues:** Revenue for the quarter stood at INR 12.5bn, up 22% YoY, driven by volumes of 2.74mnT, +20.2% YoY (vs. 2.52mnT - JMFe). Volumes were driven by strong growth in the eastern markets and improvement in the sand availability in Tamil Nadu. Cement realisations came in at INR 4,571/t, +2.7% YoY (sequential decline of 0.8%). Wind farm revenues declined to INR 11.8mn in 4QFY18 (INR34mn in 4QFY17), primarily on lower realisation. Ramco windfarms generated a revenue of INR174.5mn in FY18 (-2% YoY) generating 43.6mn units of electricity (45.1mn units in FY17). Consolidated revenues for full year FY18 at INR44.1bn grew 11.6% YoY on volume growth of 11.5%. Realisations remained flat during the year.
- Muted EBITDA/t on cost escalations:** EBITDA for 4QFY18 - at INR 2.7bn – remained flat YoY. Blended EBITDA/t for the quarter at INR995/t declined by 16% YoY. The decline in EBITDA/t was primarily on escalations in power/fuel costs (-INR187/t impact), freight costs (-INR163/t impact) and raw material costs (-INR55/t impact) more than offsetting the realisation improvement (INR79/t of positive impact) and better operating leverage (INR106/t of positive impact). Power and fuel costs increased on higher petcoke/coal prices. Freight cost increased during the quarter on higher diesel prices (+8% YoY for the quarter). Interest cost for the period declined to INR105mn vs INR201mn in 4QFY17 due to repayment of borrowing by INR3.1bn and access to cheaper sources of funds (cost of debt reduced by 1.13%). PAT for the quarter was reported at INR 1.06bn, down 20% YoY. EBITDA for full year FY18 at INR11.1bn declined 8% YoY.
- Other details:** i) Ramco is setting up a new clinkerisation line (Line III) with capacity 1.5MTPA at its Jayanthipuram plant at a cost of INR6.8bn (USD70/t); ii) Company expansion of 3.1MTPA of grinding capacities in West Bengal, Vizag and Odisha is progressing as expected. Expansion projects are expected to be commissioned by FY20; iii) Board recommended a dividend of INR3/share for FY18 (INR3/share in FY17)
- Maintain HOLD:** Ramco has historically traded at a 25-35% discount to its large-cap peers. We value the company at 10x one-year forward EVE on growth expectations on expansion and one of the highest EBITDA/t. TP of INR 620/share (Mar'19). We maintain HOLD as we see limited risk/reward at the current valuation since key markets are expected to face high supply additions and a delayed recovery in profitability.



Abhishek Anand CFA

abhishek.anand@jmfl.com | Tel: (91 22) 66303067

Roshan Paunikar

roshan.paunikar@jmfl.com | Tel: (91 22) 66303563

Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	620
Upside/(Downside)	-21.7%
Previous Price Target	620
Change	0.0%

Key Data – TRCL IN

Current Market Price	INR792
Market cap (bn)	INR186.5/US\$2.7
Free Float	46%
Shares in issue (mn)	235.6
Diluted share (mn)	235.6
3-mon avg daily val (mn)	INR255.2/US\$3.8
52-week range	879/648
Sensex/Nifty	34,651/10,537
INR/US\$	68.0

Price Performance

%	1M	6M	12M
Absolute	-6.3	11.8	17.6
Relative*	-6.9	8.3	3.7

* To the BSE Sensex

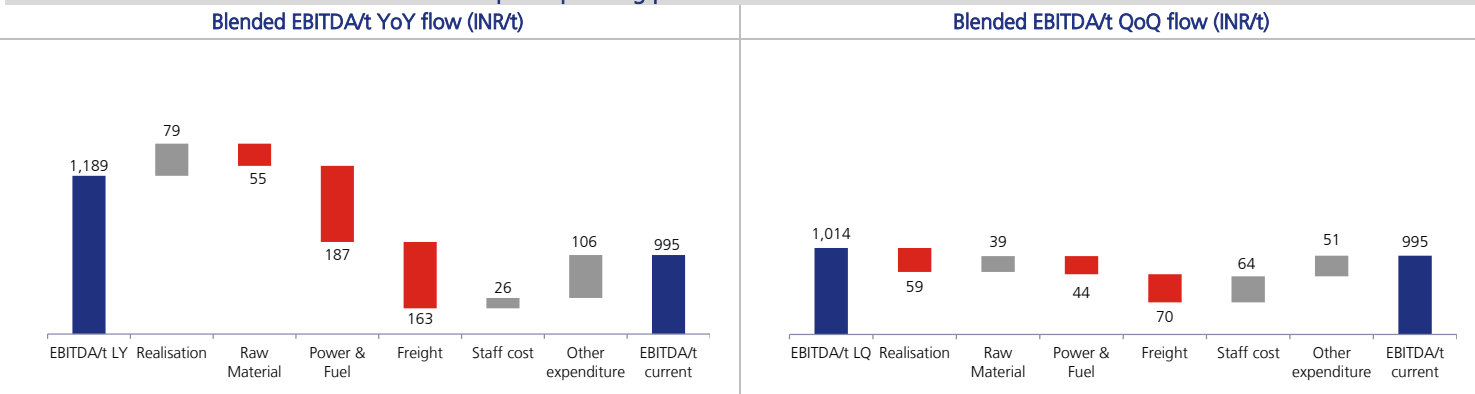
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	35,592	38,568	43,181	51,123	61,759
Sales Growth (%)	-1.3	8.4	12.0	18.4	20.8
EBITDA	10,765	12,077	11,121	12,651	15,802
EBITDA Margin (%)	30.1	30.4	25.1	24.7	25.5
Adjusted Net Profit	5,452	6,627	5,638	6,897	9,158
Diluted EPS (INR)	22.9	27.8	23.9	29.3	38.9
Diluted EPS Growth (%)	121.5	21.6	-14.0	22.3	32.8
ROIC (%)	12.6	14.4	11.8	13.8	15.9
ROE (%)	18.9	19.1	14.3	15.7	18.2
P/E (x)	34.6	28.5	33.1	27.1	20.4
P/B (x)	6.0	5.0	4.5	4.0	3.4
EV/EBITDA (x)	19.3	16.6	17.7	15.6	12.4
Dividend Yield (%)	0.4	0.4	0.4	0.6	0.7

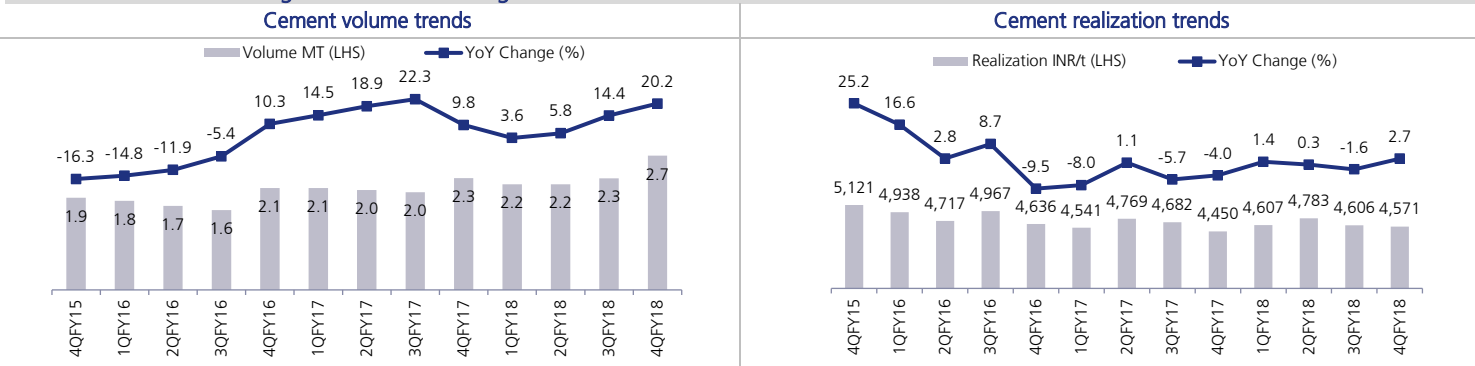
Source: Company data, JM Financial. Note: Valuations as of 22/May/2018

Exhibit 1. Muted realisations/cost escalations impact operating performance



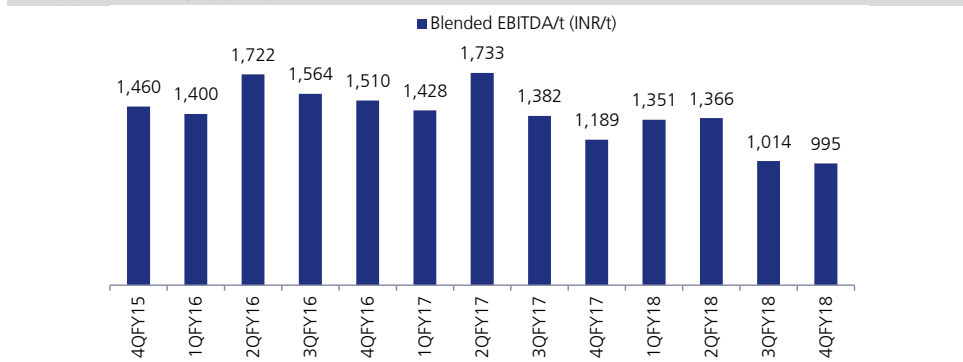
Source: Company, JM Financial

Exhibit 2. Cement volume growth aids revenue growth



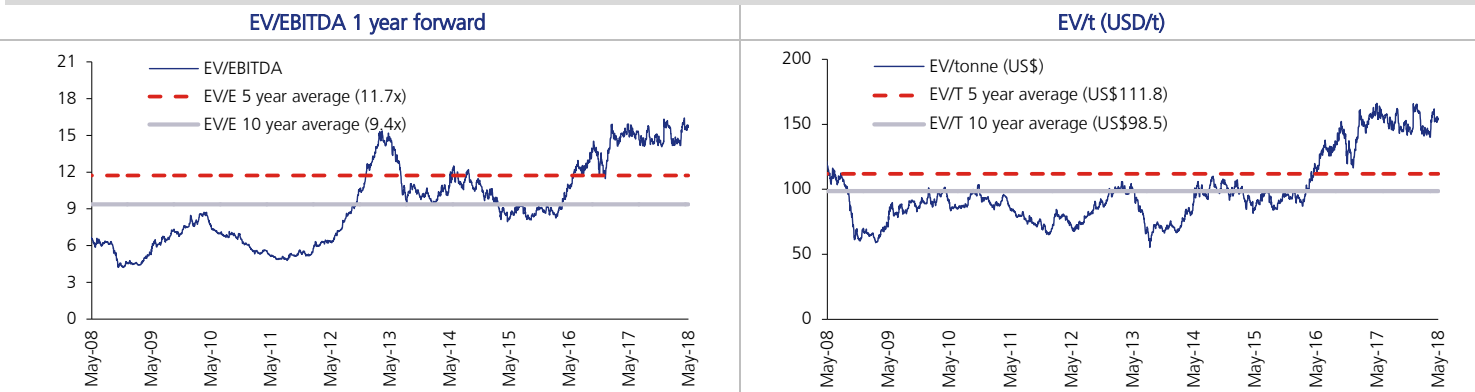
Source: Company, JM Financial

Exhibit 3. EBITDA/t trends



Source: Company, JM Financial

Exhibit 4. Valuation charts



Source: Company, JM Financial

Exhibit 5. Results in brief

(INR mn)

INR mn	4QFY18	4QFY17	%YoY	3QFY18	%QoQ	FY18	FY17	%YoY
Net Sales(excluding excise)	12,508	10,132	23.4	10,475	19.4	43,181	38,568	12.0
Other Operating Income	40	130	-69.3	89	-54.9	882	928	-4.9
Total Revenues	12,548	10,262	22.3	10,564	18.8	44,064	39,495	11.6
Expenditure	9,826	7,554	30.1	8,258	19.0	33,069	27,549	20.0
EBITDA	2,722	2,708	0.5	2,306	18.0	10,994	11,947	-8.0
% margin	21.7	26.4	-470 bps	21.8	-10 bps	25.0	30.2	-530 bps
Other income	190	65	193.8	52	268.4	366	435	-15.8
Interest	105	201	-48.0	160	-34.7	592	1,035	-42.8
Depreciation	754	854	-11.6	730	3.4	2,922	2,845	2.7
PBT	2,053	1,718	19.5	1,467	39.9	7,847	8,502	-7.7
Tax	967	373	159.1	287	236.9	2,290	2,009	14.0
% tax rate	47.1	21.7		19.6		29.2	23.6	
PAT (Adjusted)	1,086	1,345	-19.2	1,180	-8.0	5,557	6,493	-14.4
Extraordinary items	0	0		47		0	0	
PAT (Reported)	1,086	1,345	-19.2	1,227	-11.5	5,557	6,493	-14.4
EPS (INR)	4.6	5.6	-18.4	5.0	-8.0	23.0	27.3	-15.7
Key Operational matrix								
Cement sales (mn t)	2.74	2.28	20.2	2.27	20.3	9.31	8.35	11.5
Realisation (INR/t)	4,571	4,450	2.7	4,606	-0.8	4,660	4,620	0.9
Cement EBITDA INR/t	991	1,134	-12.6	1,009	-1.8	1,083	1,309	-17.3
Blended EBITDA INR/t	995	1,189	-16.4	1,014	-1.9	1,181	1,431	-17.5

Source: Company, JM Financial

Exhibit 6. Expense break-down

(INR mn)

	4QFY18	4QFY17	%YoY	3QFY18	%QoQ	FY18	FY17	%YoY
Raw material	2,281	1,670	36.6	1,842	23.8	7,667	6,555	17.0
INR/t	834	733	13.7	810	2.9	823	785	4.9
Power and fuel	2,176	1,385	57.1	1,708	27.4	7,291	5,164	41.2
INR/t	795	608	30.7	751	5.9	783	619	26.6
Freight	2,912	2,052	41.9	2,262	28.8	9,281	7,383	25.7
INR/t	1,064	901	18.1	995	7.0	997	884	12.7
(Inc)/dec in stock	32	130	-75.7	169	-81.3	-161	149	-207.8
INR/t	12	57	-79.8	74	-84.4	-17	18	-196.6
Total Variable cost	7,401	5,238	41.3	5,981	23.8	24,078	19,251	25.1
INR/t	2,705	2,300	17.6	2,630	2.9	2,586	2,306	12.1
Staff cost	738	673	9.7	759	-2.8	3,040	2,777	9.5
INR/t	270	295	-8.7	334	-19.2	326	333	-1.9
Other expenditure	1,687	1,644	2.6	1,518	11.1	5,952	5,521	7.8
INR/t	617	722	-14.6	668	-7.6	639	661	-3.4
Total fixed cost	2,425	2,317	4.6	2,277	6.5	8,992	8,298	8.4
INR/t	886	1,018	-12.9	1,001	-11.5	966	994	-2.9
Tot expenditure excluding excise	9,826	7,554	30.1	8,258	19.0	33,069	27,549	20.0
Cost INR/t	3,591	3,318	8.2	3,631	-1.1	3,551	3,300	7.6

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:

- 3.1MTPA expansion in pipeline expected to be commissioned by FY19:** Ramco is undertaking grinding capacity expansion in Andhra Pradesh (AP), West Bengal and Odisha. 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; and iii) set up of a new grinding unit at Odisha with capacity of 0.9MTPA. With this expansion, its overall capacity would stand enhanced from 16.5MTPA to 19.6MTPA. The expansion is slated to be completed in 18 months, at an estimated cost of INR 10.95bn (USD 55/t), to be met through a mix of borrowings and internal accruals. Its 4MTPA split grinding units (2.2MTPA in TN, 0.9MTPA in Kolaghat and 0.9MTPA in Vizag, AP) are operating at 58% capacity.
- 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 13bn in FY17. We see a strong balance sheet despite expansion in capacity as its net debt-to-EBITDA is expected to remain stable at <1x.

Key Risks

- With capacity utilisation under 60%, Ramco may capture the sizable incremental demand resulting from high growth in the southern/eastern region.

Valuation and View

- Ramco is trading at valuations of 13.2/10.3x EV/EBITDA based on FY19E/20E. We value the stock at 10x EV/EBITDA to arrive at TP of INR 625. We maintain our HOLD rating on the stock.

Exhibit 7. Volume, realisation and cost outlook

	FY16	FY17	FY18	FY19E	FY20E
Cement Sales (mn t)	7.2	8.3	9.3	10.4	12.0
YoY Growth (%)	-6.1	16.0	11.5	11.2	15.5
Cement Realisations (INR/t)	4,816	4,557	4,587	4,817	5,053
YoY Growth (%)	6.0	-5.4	0.7	5.0	4.9
Power & Fuel (INR/t)	725	613	776	796	820
Freight (INR/t)	925	877	988	1,018	1,049
Raw Material (INR/t)	749	747	776	815	872
Cement EBITDA (INR/t)	1,385	1,309	1,083	1,137	1,243

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Sales	35,592	38,568	43,181	51,123	61,759
Sales Growth	-1.3%	8.4%	12.0%	18.4%	20.8%
Other Operating Income	226	1,106	1,057	128	154
Total Revenue	35,818	39,673	44,238	51,251	61,913
Cost of Goods Sold/Op. Exp	5,543	6,440	7,125	8,813	10,739
Personnel Cost	2,594	2,785	3,049	3,489	4,148
Other Expenses	16,916	18,371	22,944	26,298	31,225
EBITDA	10,765	12,077	11,121	12,651	15,802
EBITDA Margin	30.1%	30.4%	25.1%	24.7%	25.5%
EBITDA Growth	49.5%	12.2%	-7.9%	13.8%	24.9%
Depn. & Amort.	3,053	2,858	2,935	3,082	3,342
EBIT	7,712	9,219	8,186	9,569	12,460
Other Income	755	399	327	290	340
Finance Cost	1,838	1,049	600	777	743
PBT before Excep. & Forex	6,629	8,569	7,913	9,082	12,057
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,629	8,569	7,913	9,082	12,057
Taxes	1,317	2,027	2,311	2,180	2,894
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	142	110	61	5	5
Reported Net Profit	5,452	6,627	5,638	6,897	9,158
Adjusted Net Profit	5,452	6,627	5,638	6,897	9,158
Net Margin	15.2%	16.7%	12.7%	13.5%	14.8%
Diluted Share Cap. (mn)	238.1	238.1	235.6	235.6	235.6
Diluted EPS (INR)	22.9	27.8	23.9	29.3	38.9
Diluted EPS Growth	121.5%	21.6%	-14.0%	22.3%	32.8%
Total Dividend + Tax	858	860	850	1,243	1,651
Dividend Per Share (INR)	3.0	3.0	3.0	4.4	5.8

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Profit before Tax	6,629	8,569	7,913	9,082	12,057
Depn. & Amort.	3,253	2,858	2,935	3,082	3,342
Net Interest Exp. / Inc. (-)	1,838	1,049	600	777	743
Inc (-) / Dec in WCap.	919	816	1,581	-1,159	-526
Others	-267	-245	124	0	0
Taxes Paid	-1,484	-1,874	-2,311	-2,180	-2,894
Operating Cash Flow	10,888	11,174	10,842	9,603	12,722
Capex	-2,980	-3,048	-4,599	-9,648	-9,003
Free Cash Flow	7,908	8,126	6,243	-45	3,720
Inc (-) / Dec in Investments	198	-30	-176	1,500	0
Others	176	276	0	0	0
Investing Cash Flow	-2,606	-2,802	-4,775	-8,148	-9,003
Inc / Dec (-) in Capital	0	0	-1,677	0	0
Dividend + Tax thereon	-1,291	0	-850	-1,243	-1,651
Inc / Dec (-) in Loans	-6,566	-5,545	-3,166	0	-1,000
Others	-142	-2,541	-374	-777	-743
Financing Cash Flow	-8,000	-8,086	-6,066	-2,021	-3,394
Inc / Dec (-) in Cash	282	286	1	-566	326
Opening Cash Balance	629	911	1,198	1,199	633
Closing Cash Balance	911	1,198	1,199	633	958

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Shareholders' Fund	31,331	37,955	41,051	46,704	54,212
Share Capital	238	238	236	236	236
Reserves & Surplus	31,093	37,717	40,815	46,469	53,976
Preference Share Capital	0	0	0	0	0
Minority Interest	7	19	32	37	42
Total Loans	21,404	14,372	11,206	11,206	10,206
Def. Tax Liab. / Assets (-)	7,084	7,215	7,532	7,532	7,532
Total - Equity & Liab.	59,826	59,561	59,820	65,479	71,992
Net Fixed Assets	51,731	53,309	54,973	61,539	67,200
Gross Fixed Assets	76,623	80,807	84,860	86,360	1,03,511
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	26,360	28,701	31,636	34,718	38,060
Capital WIP	1,468	1,203	1,749	9,897	1,749
Investments	3,267	2,105	2,280	780	780
Current Assets	14,445	15,292	14,327	16,198	19,762
Inventories	5,502	5,766	5,613	6,645	8,027
Sundry Debtors	4,721	5,549	4,423	5,237	6,326
Cash & Bank Balances	911	1,198	1,199	633	958
Loans & Advances	345	422	452	560	676
Other Current Assets	2,966	2,357	2,641	3,124	3,774
Current Liab. & Prov.	9,617	11,145	11,760	13,038	15,751
Current Liabilities	2,148	2,562	2,679	3,172	3,832
Provisions & Others	7,469	8,582	9,081	9,867	11,919
Net Current Assets	4,828	4,147	2,567	3,160	4,011
Total - Assets	59,826	59,561	59,820	65,479	71,992

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
Net Margin	15.2%	16.7%	12.7%	13.5%	14.8%
Asset Turnover (x)	0.6	0.7	0.7	0.8	0.9
Leverage Factor (x)	2.1	1.7	1.5	1.4	1.4
RoE	18.9%	19.1%	14.3%	15.7%	18.2%

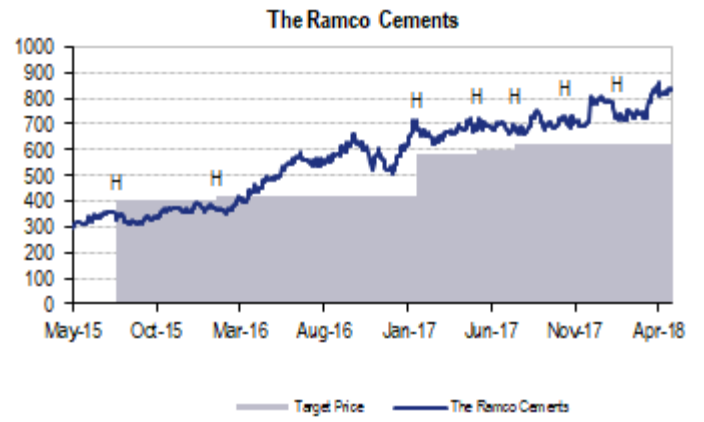
Key Ratios					
Y/E March	FY16A	FY17A	FY18A	FY19E	FY20E
BV/Share (INR)	131.6	159.4	174.3	198.3	230.1
ROIC	12.6%	14.4%	11.8%	13.8%	15.9%
ROE	18.9%	19.1%	14.3%	15.7%	18.2%
Net Debt/Equity (x)	0.7	0.3	0.2	0.2	0.2
P/E (x)	34.6	28.5	33.1	27.1	20.4
P/B (x)	6.0	5.0	4.5	4.0	3.4
EV/EBITDA (x)	19.3	16.6	17.7	15.6	12.4
EV/Sales (x)	5.8	5.0	4.5	3.9	3.2
Debtor days	48	51	36	37	37
Inventory days	56	53	46	47	47
Creditor days	31	34	30	30	30

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
10-Aug-15	Hold	400	
10-Feb-16	Hold	420	5.0
8-Feb-17	Hold	580	38.1
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

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, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.comCompliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: sunny.shah@jmfl.com

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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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