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Q2FY20 result review
and earnings revision

Cement

Target price: Rs900

Earnings revision

(%)	FY20E	FY21E
Sales	↑ 0.2	↓ 0.2
EBITDA	↓ 0.1	↓ 0.0
EPS	↓ 0.0	↓ 2.3

Target price revision

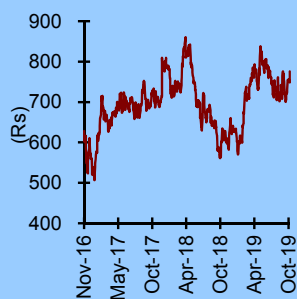
Rs900 from Rs872

Shareholding pattern

	Mar '19	Jun '19	Sep '19
Promoters	42.8	42.8	42.7
Institutional investors	34.6	34.9	33.3
MFs and Others	20.9	20.9	21.5
FIs//Bank/Ins.	2.1	1.9	0.0
FII	11.6	12.1	11.8
Others	22.6	22.3	24.0

Source: CMIE

Price chart



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Ramco Cements

BUY

Maintained

Rs776

Volume surprise; margins in-line

The Ramco Cements (TRCL)'s Q2FY20 EBITDA increased 19% YoY to Rs3bn – higher than our / consensus estimates mainly led by better than expected volumes. Volume growth surprised positively with 10% YoY growth (I-Sec: 1% YoY); while realisation declined 5.6% QoQ vs our estimate of 6.4% QoQ decline. Net debt increased by Rs7bn to Rs23bn in H1FY20 owing to Rs4.2bn working capital need and Rs8.3bn capex spend. TRCL is on track (with slight delays due to extended monsoon) to increase capacity by >40% to 20mnte by 2020. We broadly maintain our FY20-21E EBITDA and raise our target price to Rs900/share (earlier: Rs872) based on 13x Sep'21E EV/E on half yearly roll-over. Maintain BUY.

- ▶ **Revenue increased 11% YoY to Rs13.1bn (I-Sec: Rs12bn).** Cement volumes surprised positively with 10% growth YoY to 2.7mnte with better demand in its key markets of Tamil Nadu, Kerala and Odisha and higher export volumes. Export volumes increased 32% YoY to 70kte. Realisation increased 1.8% YoY/ declined 5.6% QoQ to Rs4,708/te (I-Sec: Rs4,669/te) owing to better market mix.
- ▶ **Cement EBITDA/te increased 14% YoY to Rs995/te (I-Sec: Rs963/te).** Cement cost/te declined 1% YoY/ increased 1% QoQ, in-line with our estimates. Raw material plus power and fuel expenses/te remained broadly flat QoQ; while freight costs/te declined 4.8% QoQ and 9.5% YoY. TRCL launched its premium product SUPERCREE in Karnataka and Andhra Pradesh during the quarter (in addition to Tamil Nadu and Kerala) which resulted in higher launch expenses of Rs150mn during Q2FY20. Also, higher actuarial provisions owing to low interest rates resulted in employee expenses increasing 10% QoQ and 16% YoY. PAT increased 44% YoY to Rs1.7bn (I-Sec: Rs1.4bn) owing to higher EBITDA and lower tax rate. Tax rate for the quarter stood at 21% (I-Sec: 28%) on MAT credit of Rs117mn.
- ▶ **Windmill revenues declined 22% YoY to Rs306mn** led by 19% YoY decline in wind power generation to 114mn units. Power realisation declined 4% YoY to Rs2.68/ p.u. Windmill EBITDA declined 26% YoY to Rs254mn (I-Sec: Rs349mn).
- ▶ **TRCL is on track to increase capacity by >40% to 20mnte by 2020** with slight delay due to extended monsoon. The unit-2 of cement grinding unit in Kolaghat, West Bengal having capacity of 1mnte has commenced commercial production from 26th Sep'19. TRCL's clinker capacity expansion of 1.5mnte at Jayanthipuram with 27MW WHRS and 1.1mnte Vizag cement capacity will be commissioned in Sep'20 and Mar'20, respectively. New greenfield unit of 0.9mnte in Odisha will commission by Dec'19. New greenfield plant at Kurnool, Andhra Pradesh with clinker capacity of 2.25mnte and cement capacity of 1mnte along with railway siding, 10MW WHRS and 15MW CPP is expected by Mar'21.
- ▶ **We factor-in 9% volume CAGR over FY20E-FY21E** and expect EBITDA/te to increase from Rs921/te in FY19 to Rs1,240/te by FY22E (H1FY20- Rs1,168/te).

Market Cap	Rs183bn/US\$2.6bn
Reuters/Bloomberg	RAMC.BO / TRCL IN
Shares Outstanding (mn)	235.6
52-week Range (Rs)	838/565
Free Float (%)	57.3
FII (%)	11.8
Daily Volume (US\$'000)	3,210
Absolute Return 3m (%)	4.3
Absolute Return 12m (%)	29.4
Sensex Return 3m (%)	7.4
Sensex Return 12m (%)	19.7

Year to Mar	2019	2020E	2021E	2022E
Revenue (Rs mn)	51,623	56,598	64,851	74,024
EBITDA (Rs mn)	10,664	13,779	16,367	18,711
Net Income (Rs)	5,326	7,518	8,746	10,012
% Chg YoY	(3.4)	41.2	16.3	14.5
P/E (x)	34.3	24.3	20.9	18.3
CEPS (Rs)	35.3	45.9	53.5	60.9
EV/E (x)	18.6	14.5	12.3	10.5
Dividend Yield	0.4	0.4	0.4	0.4
RoCE (%)	8.7	10.5	10.8	11.5
RoE (%)	12.3	15.4	15.6	15.6

Table 1: Q2FY20 result review*(Rs mn, year ending March 31)*

	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	I-Sec	Variance	%
Volumes (mn te)	2.72	2.47	10.3	2.70	0.8	2.49		9.2
Cement realisation (Rs/te)	4,708	4,622	1.8	4,989	(5.6)	4,669		0.8
Net sales	13,129	11,806	11.2	13,698	(4.2)	12,039		9.1
Other operating income	37	29	27.0	141	(73.6)	35		6.3
Raw material costs	1,997	1,854	7.7	2,009	(0.6)	1,910		4.5
Personnel costs	974	839	16.1	884	10.2	881		10.6
Power and fuel costs	2,713	2,360	14.9	2,661	1.9	2,288		18.5
Freight expenses	2,698	2,703	(0.2)	2,811	(4.0)	2,554		5.6
Other expenses	1,821	1,578	15.4	1,692	7.6	1,689		7.8
Total expenses	10,202	9,334	9.3	10,056	1.5	9,322		9.4
EBITDA	2,965	2,502	18.5	3,783	(21.6)	2,752		7.7
EBITDA/te incl. windmill (Rs/te)	1,088	1,013	7.4	1,400	(22.2)	1,104		(1.4)
Interest	147	131	12.3	135	8.9	142		3.8
Depreciation	765	728	5.1	758	1.0	765		(0.0)
Other income	92	59	56.0	82	13.0	68		35.7
Recurring pre-tax income	2,144	1,701	26.0	2,972	(27.8)	1,913		12.1
Extraordinary items	(13)	(30)		(190)		-		
Taxation	450	527	(14.5)	862	(47.8)	536		(15.9)
Reported net income	1,682	1,145	46.9	1,920	(12.4)	1,377		22.1
Recurring net income	1,694	1,175	44.2	2,110	(19.7)	1,377		23.0
Ratios (%)								
EBITDA margins	22.6	21.2		27.6		22.9		
Net profit margins	12.9	9.9		15.4		11.4		

Source: Company data, I-Sec research

Table 2: Historical quarterly analysis on per-tonne basis*(Rs/te)*

	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Sales realisation - only cement	4,622	4,392	4,640	4,989	4,708
Raw materials	751	729	853	743	733
Power & fuel	956	987	893	984	996
Freight	1,095	1,015	1,050	1,040	990
Staff	340	296	250	327	358
Other expenditure	618	581	541	607	650
Total cost	3,760	3,608	3,587	3,701	3,727
Other operating income	12	11	9	52	14
EBITDA/te – cement*	874	795	1,062	1,340	995

Source: Company data, I-Sec research

Table 3: TRCL generated negative FCF of Rs7bn in H1FY20 owing to working capital needs and capex spends

<i>(Rs mn)</i>	H1FY19	H1FY20	% YoY
Operating Cash flow	4,273	5,548	29.8
Working Capital changes	(3,315)	(4,237)	NA
Capital Commitments	(4,539)	(8,308)	NA
Net Operating FCF	(3,581)	(6,998)	NA
Investing Activities	58	81	39.6
Inc(Dec) in Borrowings	2,008	8,110	304.0
Dividend paid	(853)	(853)	-
Change in Cash & Bank	(2,368)	340	NA

Source: Company data, I-Sec research

Table 4: EBITDA to OCF conversion stood at 22% (flat YoY) in H1FY20 owing to working capital need

<i>(Rs mn)</i>	H1FY19	H1FY20	% YoY
OCF before w/cap changes	5,168	6,797	31.5
W/cap changes	(3,315)	(4,237)	NA
Taxes paid	(674)	(997)	NA
OCF	1,178	1,562	32.6
EBITDA	5,004	6,748	34.8
EBITDA:OCF	24%	23%	
Interest	(220)	(252)	14.3
Other income	108	174	60.5
EBITDA:OCF (post int./OI)	21%	22%	

Table 5: Per-tonne estimates

(Rs /te)	FY18	FY19	FY20E	FY21E	FY22E
Net realisations – cement	4,637	4,563	4,732	4,846	4,943
YoY (%)	(0.1)	(1.6)	3.7	2.4	2.0
Raw material consumed	806	761	780	794	808
Power and fuel	783	950	921	940	981
Freight	997	1,068	1,014	1,045	1,076
Others	984	903	916	893	875
Total operating expenses	3,570	3,682	3,631	3,671	3,740
YoY (%)	7.3	3.1	(1.4)	1.1	1.9
EBITDA/te incl. windmill	1,181	959	1,169	1,239	1,286
YoY (%)	(17.1)	(18.8)	21.9	6.1	3.8
EBITDA/te - cement only	1,129	921	1,139	1,214	1,240
YoY (%)	(18.3)	(18.4)	23.7	6.5	2.2

Source: Company data, I-Sec research

Table 6: Performance trend and assumptions

	FY18	FY19	FY20E	FY21E	FY22E
Capacity	15,490	15,490	16,415	18,590	19,590
Capacity utilisation (%)	60	72	72	71	76
Sales	9,312	11,124	11,791	13,206	14,791
Growth (%)	11.5	19.5	6.0	12.0	12.0
Realisation (Rs/te)	4,637	4,563	4,732	4,846	4,943
Growth (%)	(0.1)	(1.6)	3.7	2.4	2.0

Source: Company data, I-Sec research

Table 7: Valuations based on 13x Sep'21E EV/E

(Rs.mn)	
Target EV/ EBITDA multiple (x)	13
Target EV (Rs mn)	232,097
Net debt / (cash) (Rs mn)	20,167
Target value (Rs mn)	211,931
No. of shares (mn)	236
Target price per share (Rs)	900

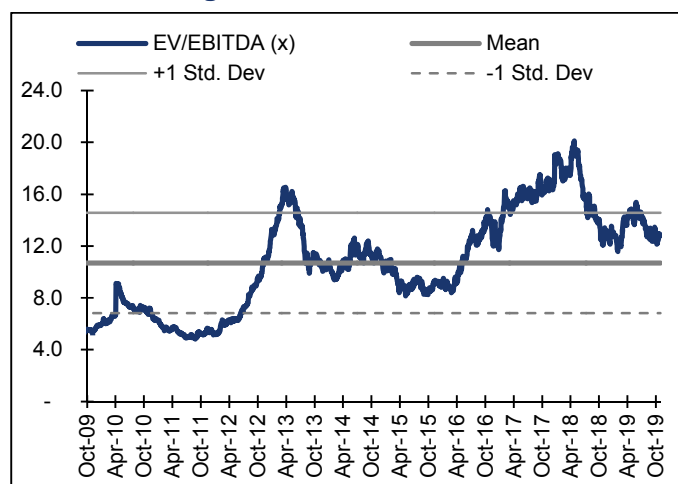
Source: I-Sec research

Table 8: Earnings revision

(Rs mn)	FY20E			FY21E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	56,598	56,488	0.2	64,851	64,983	(0.2)
EBITDA	13,779	13,797	(0.1)	16,367	16,373	(0.0)
PAT	7,518	7,519	(0.0)	8,746	8,952	(2.3)

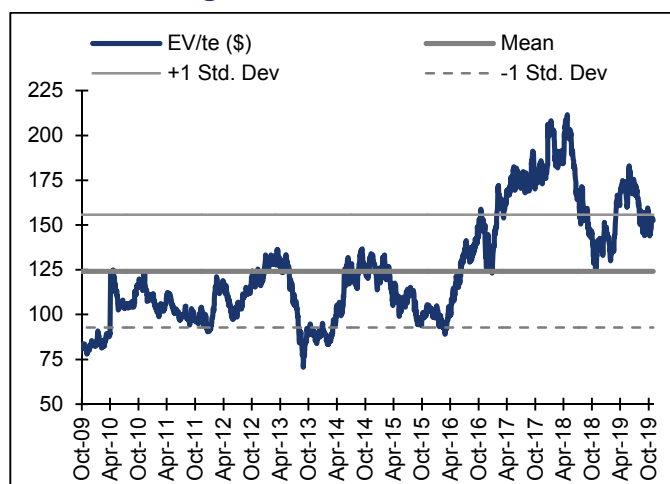
Source: Company data, I-Sec research

Chart 1: Rolling EV/EBITDA



Source: I-Sec research

Chart 2: Rolling EV/te



Financial summary (consolidated)

Table 9: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Income (Sales)	51,380	56,355	64,596	73,756
Other operating income	243	243	255	268
Operating Expenses	40,960	42,819	48,484	55,313
EBITDA	10,664	13,779	16,367	18,711
% margin	20.8	24.5	25.3	25.4
Depreciation & Amortisation	3,000	3,300	3,862	4,330
Gross Interest	514	772	1,172	1,301
Other Income	250	300	314	314
Recurring PBT	7,400	10,007	11,647	13,395
Add: Extraordinaries	(219)	-	-	-
Less: Taxes	2,106	2,522	2,935	3,375
- Current tax	1,854	2,522	2,935	3,375
- Deferred tax	253	-	-	-
Net Income (Reported)	5,107	7,518	8,746	10,012
Recurring Net Income	5,326	7,518	8,746	10,012

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Assets				
Total Current Assets	14,841	17,139	18,101	20,036
Current Liab. & Prov.	11,606	11,545	11,845	12,395
Net Current Assets	3,235	5,594	6,257	7,641
Investments of which	4,206	4,206	4,206	4,206
Strategic/Group	4,206	4,206	4,206	4,206
Marketable	-	-	-	-
Net Fixed Assets*	62,987	74,687	82,825	85,195
of which				
Capital Work-in-Progress	10,388	9,388	8,388	8,388
Goodwill	-	-	-	-
Total Assets	70,428	84,487	93,288	97,042
of which cash & cash equi.	948	2,126	1,820	2,174
Liabilities				
Borrowings	16,369	23,812	24,812	19,515
Deferred Tax Liability	8,642	8,642	8,642	8,642
Minority Interest	47	47	47	47
Equity Share Capital	236	236	236	236
Face value per share (Rs)	1	1	1	1
Reserves & Surplus	45,134	51,750	59,551	68,602
Net Worth	45,370	51,986	59,787	68,838
Total Liabilities	70,428	84,487	93,288	97,042

Source: Company data, I-Sec research

Table 11: Quarterly trend

(Rs mn, year ending March 31)

	Dec-18	Mar-19	Jun-19	Sep-19
Net sales	12,074	15,293	13,698	13,129
% growth (YoY)	14.6	22.2	13.7	11.2
Recurring EBITDA	2,140	3,470	3,783	2,965
Margin (%)	17.7	22.7	27.6	22.6
Other income	66	111	82	92
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	1,011	1,873	2,110	1,694

Source: Company data

Table 12: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
Operating Cashflow	8,420	10,558	12,359	14,101
Working Capital changes	(975)	(1,221)	(1,034)	(1,104)
Capital Commitments	(12,025)	(15,000)	(12,000)	(6,700)
Net Operating FCF	(4,580)	(5,663)	(676)	6,297
Investing Activities	4	300	314	314
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	7,863	7,443	1,000	(5,297)
Dividend paid	(853)	(902)	(945)	(961)
Others	-	(0)	(0)	0
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	2,434	1,178	(306)	354

Source: Company data, I-Sec research

Table 13: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	21.7	31.9	37.1	42.5
Diluted Recurring EPS	22.6	31.9	37.1	42.5
Diluted Recurring CEPS	35.3	45.9	53.5	60.9
Dividend per share	3.0	3.2	3.3	3.4
Book Value	193	221	254	292
Growth Ratios (% YoY)				
Operating Income	16.7	9.7	14.6	14.2
EBITDA	(3.0)	29.2	18.8	14.3
Recurring Net Income	(3.4)	41.2	16.3	14.5
Diluted Recurring EPS	(3.4)	41.2	16.3	14.5
Diluted Recurring CEPS	(1.5)	29.9	16.5	13.8
Valuation Ratios (x)				
P/E	34.3	24.3	20.9	18.3
P/CEPS	22.0	16.9	14.5	12.7
P/BV	4.0	3.5	3.1	2.7
EV / EBITDA	18.6	14.5	12.3	10.5
EV / te (US\$)	174	170	151	144
EV / Operating Income	3.9	3.6	3.2	2.7
EV / Operating FCF	31.0	21.9	18.2	15.4
Operating Ratios (%)				
Raw Material / Sales	16.5	16.3	16.2	16.2
Other expenses / Sales	63.2	59.7	58.8	58.8
Other Income / PBT	3.4	3.0	2.7	2.3
Effective Tax Rate	28.5	25.2	25.2	25.2
NWC / Total Assets	0.0	0.0	0.0	0.1
Inventory (x)	3.9	3.9	4.1	4.2
Receivables (days)	33	33	32	30
Payable (days)	23	22	20	18
D/E Ratio (x)	0.3	0.6	0.6	0.4
Profitability Ratios (%)				
Rec. Net Income Margins	10.3	13.3	13.5	13.5
RoCE	8.7	10.5	10.8	11.5
RoNW	12.3	15.4	15.6	15.6
Dividend Payout	13.3	10.0	9.0	8.0

Source: Company data, I-Sec research

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