

CENTRUM

The Ramco Cements Ltd

Beats Expectations; Structurally Strong and Healthy

The Ramco Cements (TRCL) revenues grew by 12.4% YoY to Rs12.8bn driven by a mix realisation gains of 2.5% and volume growth of 10.5% which came as a positive surprise. Costs inflation was well controlled as cost/tonne remained flat YoY at Rs3,750/tn contributed by lower logistic and energy cost. Effectively, EBITDA margin improved to 22.4% in 2QFY20 (20.9% in 2QFY19). EBITDA jumped by 19.5% YoY to Rs2.95bn (Rs2.47bn in 2QFY19) and EBITDA/tn increased to Rs916/tn from Rs781/tn in 2QFY19. Interest expenses were marginally higher at Rs147mn (Rs131mn in 2QFY19). The adjusted PAT rose by a strong ~47% YoY to Rs1.68bn. TRCL's business strategy of expanding in the eastern region to de-risk itself from regional concentration continues. We feel the volume gains in 2QFY20 was commendable while maintaining moderate realisation gains. We maintain our FY20/FY21 earnings estimates at Rs27.6/Rs37.4, respectively. We have valued TRCL at a replacement cost of ~Rs10.0bn/mt assigned to its operating cement capacity of 19.3mt (based on expanded FY21E clinker capacity) and excess grinding capacity (2.5mt based on FY21E capacity) at Rs2.5bn to arrive at a target price of Rs779/sh (earlier Rs773/sh). We have assigned a premium to the operating capacity of ~30% to the replacement cost to arrive at TRCL's fair value and have retained our ADD rating. At our TP (Rs779) the stock trades at an EV/EBITDA of ~13.0x FY21E earnings.

Volume and realisation gains as prudent market mix helps

Volume gained ~10.5% YoY to 2.7mn tonnes contributed by TRCL's diversification in eastern region and home markets TN and Kerala sales. The expansion in eastern region continues to aid volume the realisation gains were contributed by the home markets (~50% of the total sales). Pricing gains in TN/ Kerala in the early period of the quarter helped moderate realisation growth of 2.5% YoY driving the 2QFY20 results.

EBITDA boost from realisation gains and well controlled cost inflation

Operating costs was flat YoY with moderation of ~1% at Rs3,750/tn (2% decline YoY excluding non-recurring other expenses of ~Rs100mn), helped by lower logistic cost at Rs990/tn (down 9% YoY due to higher home market sales) and flat energy cost YoY (adjusted to the raw material cost). Expenses on advertisement launches (Rs100mn) added to the other expenses inflation which will be non-recurring. Realisation gains and cost control helped EBITDA jump to Rs2.95bn from Rs2.47bn in 2QFY19 and EBITDA margins gain to 22.4% (20.9% in 2QFY19).

Green/Brown field expansion to take capacity to 21.9mn tonnes by FY21

The brownfield expansion adding 3mn tonnes grinding capacity in the eastern region (Vizag, coastal AP; Haridaspur, Odisha will be commissioned in 2HFY20; Kolaghat, West Bengal commissioned in 2QFY20). The clinkerisation unit of 1.5mn tonnes in Jayanthipuram (AP) will be operational in 1HFY21. The new greenfield capacity (2.5 mn tonnes clinkerisation and 1.0mn grinding capacity) at Kurnool, AP will be commissioned by 2HFY21 with a capital expenditure of Rs16bn. We are factoring partial funding of the capex through debt.

Earnings, Valuation and risks – Retain Add rating

We have valued TRCL at a replacement cost of ~Rs10.0bn/mt (~30% premium) assigned to its operating cement capacity of 19.3mt (based on expanded FY21E clinker capacity) and excess grinding capacity (2.5mt based on FY21E capacity) at Rs2.5bn to arrive at a target price of Rs779/sh (earlier Rs773/sh). We believe TRCL's performance largely correlates with its home markets TN and Kerala which are reviving and will help TRCL's performance. Further, TRCL is focusing on regional diversification (in the East) and cost tightening measures. Assign an ADD rating. At our TP (Rs779) the stock trades at an EV/EBITDA of 13.0x FY21E earnings.

Financial and valuation summary

YE Mar (Rs mn)	2QFY20	2QFY19	YoY %	1QFY20	QoQ %	FY19	FY20E	FY21E
Revenue	13,167	11,835	11.2	13,839	(4.9)	51,220	54,376	68,116
EBITDA	2,952	2,472	19.4	3,593	(17.8)	10,123	12,015	15,457
EBITDA margin(%)	22.4	20.9	154	26.0	(354.3)	19.8	22.1	22.7
Adj. PAT	1,682	1,145	46.9	1,920	(12.4)	5,059	6,496	8,811
Diluted EPS	7.1	4.9	46.9	8.1	(12.4)	21.5	27.6	37.4
P/E(x)						36.0	28.0	20.7
EV/EBITDA(x)						19.5	16.7	12.9
RoE (%)						11.9	13.7	16.2

Source: Company, Centrum Research estimates

Result Update	Institutional Research
India I Cement	
31 October 2019	
Add	
Target Price: Rs779	
Price: Rs776	
Forecast return: 0.3%	

Market Data

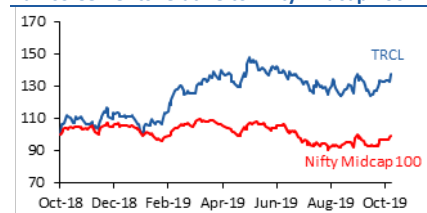
Bloomberg:	TRCL IN
52 week H/L:	Rs845/554
Market cap:	Rs183bn
Shares outstanding:	236mn
Free float:	57.1%
Avg. daily vol. 3mth:	327,159
Source: Bloomberg	

Changes in the report

Rating:	No change
Target price:	From Rs773 to Rs779
EPS:	-1.7% (FY20), -1.3% (FY21)

Source: Centrum Research estimates

Ramco Cements relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Sep-19	Jun-19	Mar-19	Dec-18
Promoter	42.7	42.8	42.8	42.8
FII's	11.7	12.0	11.5	11.4
DII's	21.6	22.9	23.0	23.6
Public/others	24.1	22.4	22.7	22.3

Source: BSE

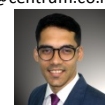


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Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY20E New	FY20E Old	% chg	FY21E New	FY21E Old	% chg
Net Sales	54,376	54,376	0.0	68,116	68,116	0.0
EBITDA	12,015	12,015	0.0	15,457	15,457	0.0
EBITDA margin %	22.1	22.1	0.0	22.7	22.7	0.0
Adj. PAT	6,496	6,605	(1.7)	8,811	8,928	(1.3)
Diluted EPS	27.6	28.0	(1.7)	37.4	37.9	(1.3)

Source: Centrum Research estimates

Centrum estimates vs Actual results

YE Mar (Rs bn)	Actual 2QFY20	Centrum 2QFY20	Variance (%)
Revenue	13,167	12,320	6.9
EBITDA	2,952	2,735	8.0
EBITDA margin(%)	22.4	22.2	22
Adj. PAT	1,682	1,429	17.6
Diluted EPS	7.1	6.1	17.6

Source: Centrum Research estimates

TRCL versus Nifty Midcap 100

	1m	6m	1 year
TRCL IN	3.2	0.2	28.9
Nifty Midcap 100	3.5	(5.6)	(1.7)

Source: Bloomberg, NSE

Key Assumptions

	FY17	FY18	FY19	FY20E	FY21E
Cement Capacity(mn MT)	16.95	16.95	16.95	20.90	21.90
Sales Volume(mn MT)	8.31	9.30	11.12	11.48	14.16
YoY change - %	14.9	11.9	19.6	3.2	23.3
Utilisation - %	49	55	66	55	65

Per tonne data(in Rs/MT)

	FY17	FY18	FY19	FY20E	FY21E
Cement Realisation	4,578	4,578	4,509	4,600	4,692
YoY change - %	(5.2)	0.0	(1.5)	2.0	2.0
Power & fuel cost	624	784	951	888	894
Freight cost	888	998	1,068	1,047	1,078
Operating cost	3,337	3,559	3,696	3,691	3,720
EBITDA/tonne	1,392	1,156	910	1,047	1,092

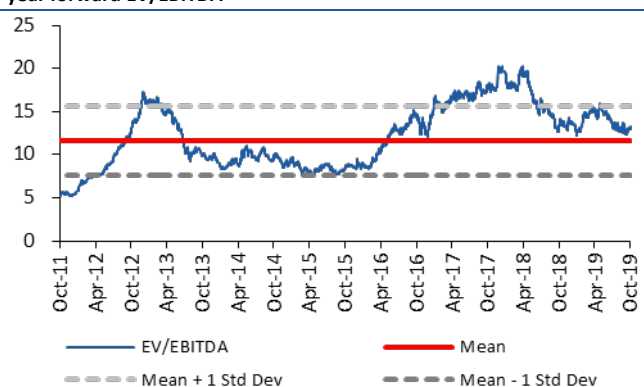
Source: Company, Centrum Research estimates

Valuations

We have valued TRCL at a replacement cost of ~Rs10.0bn/mt assigned to its operating cement capacity of 19.3mt (based on expanded FY21E clinker capacity) and excess grinding capacity (2.5mt based on FY21E capacity) at Rs2.5bn to arrive at a target price of Rs779/sh (earlier Rs773/sh). We have assigned a premium to the operating capacity of ~30% to the replacement cost to arrive at TRCL's fair value and have retained our ADD rating. At our TP (Rs779) the stock trades at an EV/EBITDA of ~13.0x FY21E earnings.

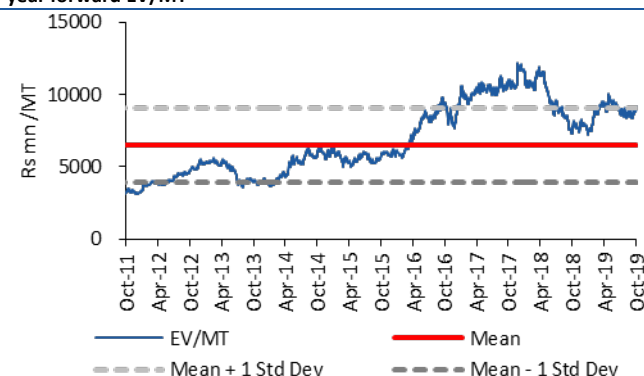
Target Valuations	FY21E
Target Replacement Cost (\$)	142
Currency Assumption (Rs/\$)	70
Target Replacement Cost (Rs)	9,940
Total Capacity (Mn Tonnes)	19.3
Target EV (Rs mn)	192,267
Total Grinding Cap Val @ cost	6,539
Total Target EV	198,805
Total Net Debt (Rs mn)	15,181
Target M-cap (Rs mn)	183,625
Total Equity Shares O/S (mn)	236
Target Price	779

1-year forward EV/EBITDA



Source: Bloomberg, Centrum Research estimates

1-year forward EV/MT



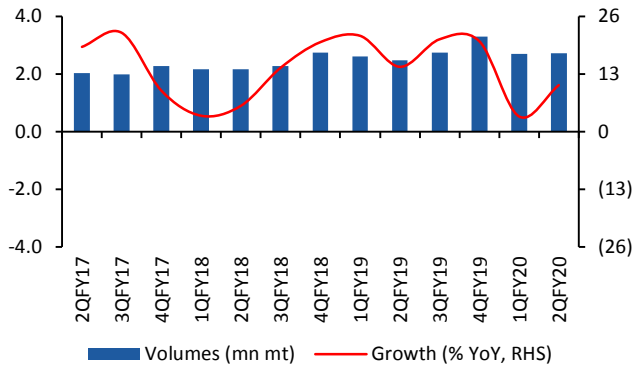
Source: Bloomberg, Centrum Research estimates

Peer comparison

Company	Mkt Cap Rs mn	CAGR FY19-FY21E (%)			EBITDA Margin(%)			EV/EBITDA (x)			EV/t (Rs mn/t)	RoE (%)			ROCE (%)		
		Rev	EBITDA	PAT	FY19	FY20E	FY21E	FY19	FY20E	FY21E		FY19	FY20E	FY21E	FY19	FY20E	FY21E
JK Cement	78,853	15.3	15.7	18.9	15.2	16.8	15.3	13.0	11.8	11.7	7989	12.6	13.7	13.0	13.2	13.0	11.8
JK Lakshmi Cement	34,227	8.1	17.0	65.3	10.7	12.0	12.5	10.5	10.1	8.4	4092	5.2	10.0	11.9	9.6	11.5	12.4
Ramco Cement	1,83,950	15.3	23.6	32.0	19.8	22.1	22.7	19.5	16.7	12.9	9091	11.9	13.7	16.2	12.2	13.4	15.9
India Cement	25,542	13.9	22.8	81.4	11.4	13.0	13.2	9.3	8.0	7.2	4394	1.3	3.1	4.3	4.6	6.2	7.1

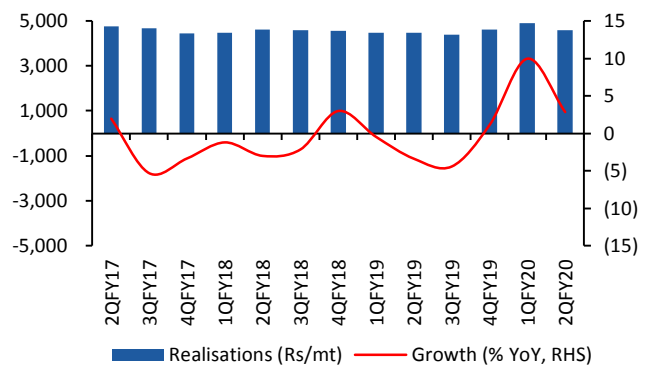
Source: Company, Centrum Research estimates

Fig 1: Volume gain aided by eastern region and Tamilnadu



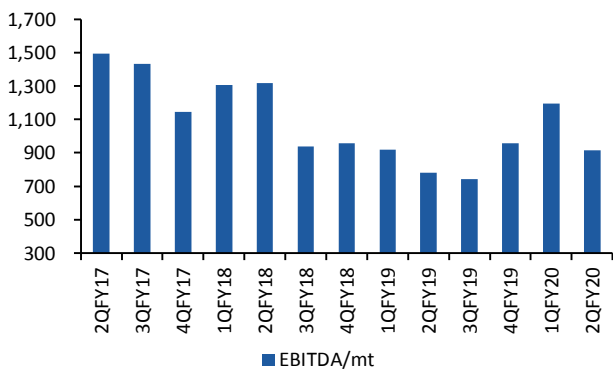
Source: Company, Centrum Research

Fig 2: Realisation gains helped by home markets



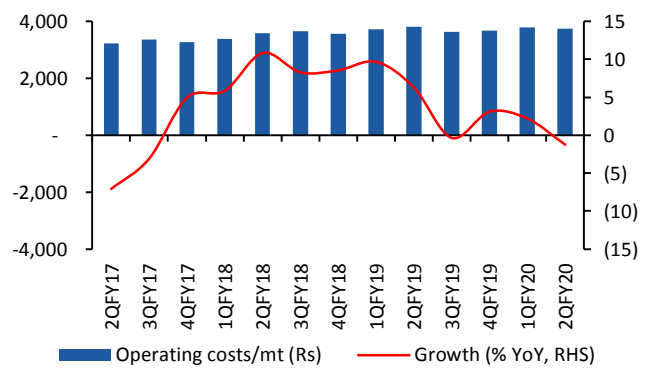
Source: Company, Centrum Research

Fig 3: Cost check and realisation gains boost EBITDA/tn



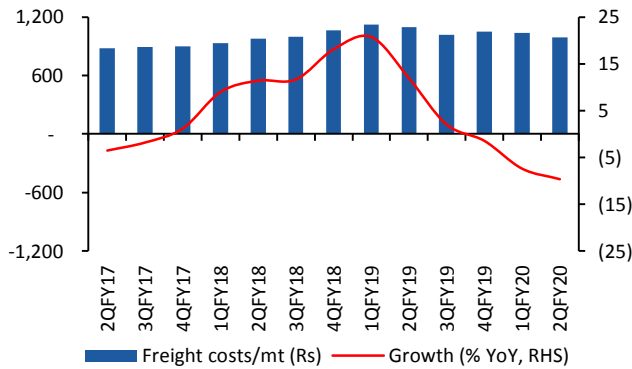
Source: Company, Centrum Research

Fig 4: All over cost savings leads to moderation



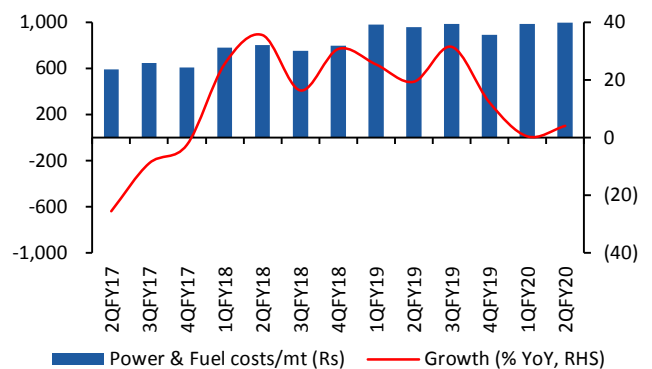
Source: Company, Centrum Research

Fig 5: Higher axle load benefits and near market sales help control freight cost



Source: Company, Centrum Research

Fig 6: Raw material adjusted energy cost stays flat



Source: Company, Centrum Research

Quarterly financial analysis

Fig 7: Quarterly financials

(Rs mn)	2QFY20	2QFY19	YoY %	1QFY20	QoQ %	1QFY20E	Deviation%	1HFY20	1HFY19	Deviation%
Net Sales	13,167	11,835	11.2	13,839	(4.9)	12,320	6.9	27,006	24,034	12.4
Expenditure										
Change in stock	(119.6)	70.0		(142.1)		(162.0)		(262)	(164)	
Raw material	2,116	1,784	18.6	2,151	(1.6)	1,977	7.1	4,267	3,826	11.5
purchased products	0	0	0.0	0	0	0	0	1,871	1,659	0.0
Power & fuel	2,713	2,360	14.9	2,661	1.9	2,424	11.9	5,373	4,923	9.1
Freight	2,698	2,703	(0.2)	2,811	(4.0)	2,571	4.9	5,508	5,638	(2.3)
Employee costs	987	839	17.6	884	11.7	894	10.4	1,871	1,659	12.8
Other exp	1,821	1,608	13.2	1,882	(3.3)	1,881	(3.2)	3,703	3,179	16.5
Total Operating Expenses	10,215	9,364	9.1	10,246	(0.3)	9,585	6.6	20,460	19,060	7.3
EBITDA	2,952	2,472	19.4	3,593	(17.8)	2,735	8.0	6,545	4,974	31.6
EBITDA margin (%)	22.4	20.9	154bps	26.0	(354)bps	22.2	22bps	24.2	20.7	354bps
Other Income	92	59	56.0	82	13.0	76	21.3	174	108	60.5
Interest	147	131	12.3	135	8.9	145	1.6	283	246	15.0
Depreciation	765	728	5.1	758	1.0	785	(2.5)	1,523	1,463	4.1
PBT	2,132	1,671	27.5	2,782	(23.4)	1,881	13.3	4,913	3,374	45.6
Non-recurring items	0	0	0.0	0		0	0.0	0	0	0.0
PBT (after non recurring items)	2,132	1,671	27.5	2,782	(23.4)	1,881	13.3	4,913	3,374	45.6
Tax	450	401	12.3	862	(47.8)	451	(0.3)	1,312	854	53.6
Tax Rate (%)	21	24	-287	31	-987	24	-288	27	25	5.5
Reported PAT	1,682	1,271	32.3	1,920	(12.4)	1,429	17.6	3,601	2,520	42.9
Adjusted PAT	1,682	1,271	32.3	1,920	(12.4)	1,429	17.6	3,601	2,520	42.9
NPM (%)	12.8	10.7	204bps	13.9	(110)bps	11.6	117bps	13.3	10.5	285bps
Adjusted EPS (Rs)	7.1	5.4	32.3	8.1	(12.4)	6.1	17.6	15.3	10.7	42.9

Source: Company, Centrum Research estimates

P&L					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	39,302	43,851	51,220	54,376	68,116
Materials cost	6,555	7,506	8,469	9,256	11,342
% of revenues	16.7	17.1	16.5	17.0	16.7
Power & fuel	5,185	7,291	10,573	10,189	12,652
% of revenues	13.2	16.6	20.6	18.7	18.6
Others	15,992	18,305	22,055	22,916	28,665
% of revenues	40.7	41.7	43.1	42.1	42.1
EBITDA	11,571	10,750	10,123	12,015	15,457
EBITDA margin (%)	29.4	24.5	19.8	22.1	22.7
Depreciation & Amortisation	2,655	2,922	2,985	2,937	3,257
EBIT	9,537	8,407	7,664	9,645	12,793
Interest expenses	1,035	592	509	851	1,097
Other income	621	579	527	567	593
Exceptional items	-	-	-	-	-
PBT	8,501	7,815	7,156	8,794	11,696
Taxes	2,009	2,290	2,097	2,298	2,885
Effective tax rate (%)	24%	29%	29%	26%	25%
PAT	6,493	5,525	5,059	6,496	8,811
Minority/Associates	-	-	-	-	-
Extraordinary Items	-	-	-	-	-
Reported PAT	6,493	5,525	5,059	6,496	8,811
Adjusted PAT	6,493	5,525	5,059	6,496	8,811

Ratios					
YE March	FY17	FY18	FY19	FY20E	FY21E
Growth Ratio (%)					
Revenue	10.7	11.6	16.8	6.2	25.3
EBITDA	10.2	(7.1)	(5.8)	18.7	28.6
Adjusted PAT	19.8	(14.5)	(7.9)	28.4	35.7
Margin Ratios (%)					
Operating	29.4	24.5	19.8	22.1	22.7
EBITDA	29.4	24.5	19.8	22.1	22.7
Adjusted PAT	16.5	12.6	9.9	11.9	12.9
Return Ratios (%)					
ROE	19.2	14.4	11.9	13.7	16.2
ROCE	17.3	14.8	12.2	13.4	15.9
ROIC	13.8	11.0	9.0	10.2	12.4
Turnover Ratios (days)					
Gross block turnover ratio (x)	0.7	0.8	0.9	0.8	0.9
Debtors	52	37	35	36	37
Inventory	53	47	40	42	43
Creditors	34	29	23	26	27
Cash conversion cycle	71	54	52	52	53
Solvency Ratio (x)					
Net debt-equity	0.3	0.2	0.3	0.3	0.3
Debt-equity	0.3	0.3	0.3	0.3	0.3
Interest coverage ratio	9.2	14.2	15.1	11.3	11.7
Gross debt/EBITDA	1.0	0.9	1.4	1.4	1.1
Current Ratio	1.1	1.1	1.3	1.1	1.3
Per share Ratios (Rs)					
Adjusted EPS	27.3	23.3	21.5	27.6	37.4
BVPS	153.6	170.4	189.3	213.4	247.3
CEPS	38.4	35.7	34.1	40.0	51.2
DPS	3.0	3.0	3.1	3.0	3.0
Dividend payout %	12.9	15.4	16.9	12.9	9.5
Valuation (x)*					
P/E (adjusted)	28.3	33.1	36.0	28.0	20.7
P/BV	5.0	4.5	4.1	3.6	3.1
EV/EBITDA	16.8	17.9	19.5	16.7	12.9
Dividend yield %	0.4	0.4	0.4	0.4	0.4

Source: Company, Centrum Research estimates

Balance Sheet					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	238	236	236	236	236
Reserves & surplus	36,341	40,118	44,365	50,053	58,029
Shareholders' fund	36,579	40,354	44,600	50,288	58,264
Total Debt (incl. pref shares if its thr)	11,496	10,117	14,278	16,420	17,320
Def tax liab. (net)	7,281	7,597	8,704	9,204	9,704
Minority interest	-	-	-	-	-
Total Liabilities	55,357	58,067	67,583	75,913	85,289
Gross Block	80,573	84,280	87,465	90,058	119,775
Less: Acc. Depreciation	(28,743)	(31,299)	(33,707)	(38,058)	(43,980)
Net Block	51,829	52,981	53,758	52,000	75,795
Capital WIP	1,203	1,749	8,526	21,500	3,000
Net Fixed Assets	53,032	54,730	62,284	73,500	78,795
Investments	1,483	1,539	1,747	1,394	1,394
Inventories	5,754	5,599	5,597	6,257	8,025
Sundry debtors	5,549	4,423	4,900	5,363	6,905
Cash	1,181	1,194	928	262	2,139
Loans & Advances	3,089	3,365	5,625	6,142	6,838
Other assets	-	-	-	-	-
Total Current Asset	15,573	14,581	17,049	18,024	23,907
Trade payables	2,558	2,671	2,572	3,017	3,895
Other current Liab.	11,068	10,025	10,769	13,898	14,822
Provisions	1,106	87	157	90	90
Net Current Assets	842	1,798	3,551	1,019	5,100
Total Assets	55,357	58,067	67,583	75,913	85,289

Cash Flows					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Operating profit bef working capital changes	10,849	10,370	9,563	13,145	17,619
Trade and other receivables	(828)	1,126	(477)	(463)	(1,542)
Trade payables	(219)	(1,183)	876	771	1,215
Net change - WC	102	(1,197)	(1,788)	(937)	(2,790)
Direct Taxes	(1,882)	(1,975)	(989)	422	(1,798)
Cash flow from operations	9,068	7,199	6,786	12,631	13,030
Net Capex	2,625	4,254	9,962	15,567	11,218
Acquisitions, net	-	-	-	-	-
Others	(42)	(56)	(209)	353	-
Cash flow from investing activities	(2,667)	(4,309)	(10,171)	(15,214)	(11,218)
FCF	6,401	2,890	(3,384)	(2,583)	1,813
Issue of share capital	-	(56)	53	-	-
Increase/(decrease) in debt	(5,358)	(1,380)	4,162	2,142	900
Dividend	(757)	(598)	(1,084)	(253)	(835)
Cash flow from financing	(6,128)	(2,876)	3,118	1,917	65
Net change in cash	273	13	(266)	(666)	1,877

Source: Company, Centrum Research estimates

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Ramco Cements



Source: Bloomberg

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