

The Ramco Cements Ltd.

Sensex: 28298

CMP: INR 364

Target: INR 421



Cement

Ramco reported impressive set of numbers, which were largely in-line with our estimates. While topline remained flat at INR 9225 mn, profitability improved by 2.7x driven by 2.2x improvement in cement EBIDTA/tonne. This was on the back of +18.5% surge in realizations coupled with marginal rise of 4.2% in operating costs/tonne. TRCL remains the best bet to play the cement demand recovery theme across South India. We continue to retain our "BUY" rating on the stock with a target of INR 421.

Pricing discipline - the saving grace

+18.5% improvement in realisations (-1.9% QoQ) proved to be the only solace for Ramco as it continued to reported double digit volume de-growth (*for the fourth consecutive quarter*) of 14.8% YoY to 1.81 mt in Q1FY16 (-3.6% QoQ). This was largely attributable to sluggish demand in south India (Mix - Tamil Nadu 38%, Kerala 26%, Andhra Pradesh 9% and Karnataka 11%). Improvement in realisations was driven by improved pricing scenario in the southern region (+25% increased pricing levels) on the back of strong pricing discipline being exercised by the players in the region.

Realization driven growth in Cement EBIDTA/tn

Cement EBIDTA/tonne increased significantly by 2.2x YoY to INR 1135/tonne (-10.7% QoQ) owing to sharp improvement in realizations and marginal rise of 4.2% (+0.4% QoQ) in operating cost/tonne.

COGS surged by 12.0% YoY (+15.1%) to INR 1009/tonne owing to provision of INR 180 mn provided towards District Mineral Foundation Fund coupled with INR 20/tonne increase in limestone royalty rate (to INR 83/tonne). Power & Fuel front cost declined by 7.7% sequentially (-13.6% YoY) to INR 804/tonne owing to declining international coal prices and increased pet coke usage (27% vs 15% in Q4FY15). Freight expenses declined sequentially by 3.9% to INR 1010/tonne driven by moderating diesel prices.

Windmill Segment - tepid performance

Windmill segment's revenues declined sharply by 47.9% YoY to INR 138 mn in Q1FY16 owing to evacuation issues and delay in onset of wind season. Resultantly EBIT declined by 86.8% to INR 19 mn during the same period.

Capex plans almost over

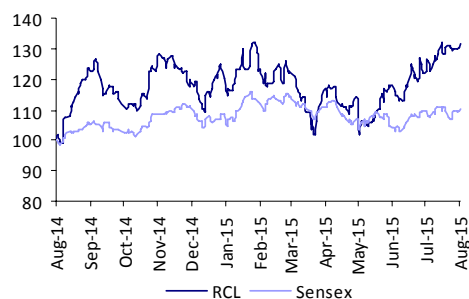
Ramco after more than doubling its capacities to 15.5 mt over the last 5 years has completed most of its capex plans in last financial year. Debt levels will decline by INR 5.0 bn to INR 24.2 bn in FY17, led by improved profitability and strong operating cash flows. Net D/E is expected to steadily decline to 0.6x in FY17E vis-a-vis 0.8x in FY15. Subsequently, return ratios are expected to improve by more than 1.8x to ~19% levels in FY17.

Outlook & Valuation

Ramco remains one of our best mid cap bets to play to the cement demand recovery theme in South India. Superior operating profitability, dominant market share backed by strong brand recognition ensures buoyant growth prospects for the company. Having split grinding unit near to high consumption markets minimizes transportation costs and helps in timely servicing of the demand. Return ratios too are expected to improve as RCL has already completed majority of its capex plans. **We retain our "BUY" rating on the stock with a target of INR 421 based on an average of 9x FY17 EV/EBIDTA & FY17 EV/tonne of INR 6900.**

Shareholding (%)	Jun-15
Promoters	42.30
FIIIs	15.46
DIIIs	19.65
Others	22.59

Relative Price Performance

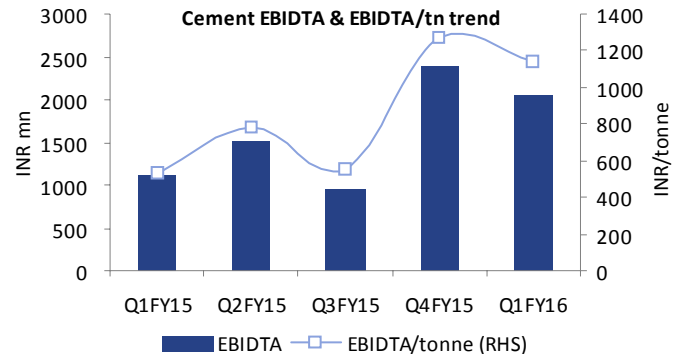
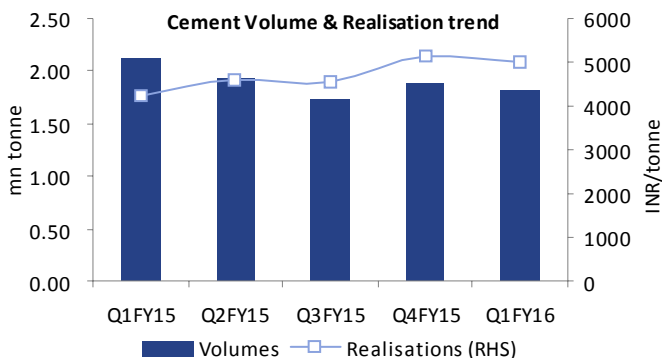


Key Data	
BSE Code	500260
NSE Code	RAMCOCEM
Bloomberg Code	TRCL IN
Reuters Code	TRCE.BO
Shares O/S (mn)	238.10
Face Value	1
Mcap (INR bn)	86.72
52 Week H/L	380.00/270.00
2W Avg. Qty, NSE	176907
Free Float (INR bn)	50.04
Beta	0.87

	INR mn	FY14	FY15	FY16E	FY17E
Net Sales		36835	35939	42729	52702
Growth (%)		-3.84%	-2.43%	18.89%	23.34%
EBIDTA Margin (%)		15.31%	18.43%	19.99%	24.33%
APAT		1230	2424	3663	5979
Growth (%)		-69.60%	97.03%	51.15%	63.22%
EPS		5.17	10.18	15.38	25.11
P/E		41.58	29.91	23.67	14.50
P/BV		2.06	2.74	2.92	2.53
EV/EBIDTA		12.31	11.81	11.86	7.92
Net Debt-Equity Ratio		1.16	0.83	0.80	0.63
RoACE (%)		6.57	10.66	12.52	18.99
RoAE (%)		5.07	9.45	13.06	18.72

Quarterly Financials

Particulars (INR mn)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	YoY Chg	QoQ Chg
Net Sales	9243	9221	7861	9614	9225	-0.19%	-4.05%
Other Operating Income	349	294	298	357	284	-18.60%	-20.45%
Other Income	18	24	18	21	18	-0.55%	-12.08%
Total Income	9610	9538	8178	9992	9527	-0.86%	-4.65%
Total Expenditure	7878	7351	6860	7228	6996	-11.20%	-3.21%
Cost of goods sold	1917	1635	1604	1650	1830	-4.51%	10.95%
Employee Expenses	583	534	567	602	621	6.43%	3.06%
Power, Oil & Fuel	1978	1852	1572	1638	1457	-26.32%	-11.02%
Selling & Administrative Expenses	2143	2027	1812	1976	1830	-14.58%	-7.35%
Other Expenses	1257	1303	1304	1363	1257	0.00%	-7.76%
PBIDT	1732	2187	1317	2764	2532	46.15%	-8.40%
PBIDTM	17.87%	22.74%	15.92%	27.51%	26.43%	856 bps	(108 bps)
Interest	500	480	485	473	488	-2.52%	3.02%
PBDT	1232	1708	833	2291	2044	65.91%	-10.76%
Depreciation	627	624	626	622	668	6.51%	7.38%
PBT	605	1084	206	1669	1377	127.40%	-17.52%
Tax	243	187	(24)	735	402	-65.49%	45.33%
Net Profit	363	897	230	934	975	168.86%	4.36%
APATM	3.78%	9.43%	2.81%	9.37%	10.25%	647 bps	88 bps
EPS	1.52	3.77	0.96	3.93	4.09	168.75%	4.31%
Equity	238	238	238	238	238	-	-
Cement Operational Performance							
Blended Volumes (mn tn)	2.13	1.94	1.72	1.88	1.81	-14.76%	-3.56%
Realisations (INR/tn)	4236	4595	4565	5121	5021	18.53%	-1.94%
EBIDTA/tonne (INR)	528	781	557	1271	1135	114.70%	-10.72%



Financials

Income Statement

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
Net Sales	36835	35939	42729	52702
<i>Growth (%)</i>	-3.84%	-2.43%	18.89%	23.34%
Cost of goods sold	6897	6805	8067	9323
Power & Fuel Cost	8324	7040	8232	9481
Employees Cost	2218	2287	2510	2928
Total Expenditure	31197	29317	34189	39878
EBIDTA (without OI)	5639	6622	8541	12825
<i>Growth (%)</i>	-43.97%	17.44%	28.97%	50.16%
EBITDA Margin %	15.31%	18.43%	19.99%	24.33%
Depreciation	3063	2499	2793	2874
EBIT	2576	4123	5748	9950
<i>EBIT Margin %</i>	6.99%	11.47%	13.45%	18.88%
Interest Expenses	1890	1938	1772	1696
Other Income	857	1379	785	850
EBT	1543	3564	4762	9105
Tax Expenses	166	1141	1098	3126
PAT	1377	2424	3663	5979
Exceptional/Extraordinary Items	147	0	0	0
APAT	1230	2424	3663	5979
<i>Growth (%)</i>	-69.60%	97.03%	51.15%	63.22%
<i>APAT Margin (%)</i>	3.34%	6.74%	8.57%	11.34%

Key Ratios

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
Per Share Data (INR)				
Adjusted EPS	5.17	10.18	15.38	25.11
CEPS	18.92	25.10	27.20	37.31
DPS	1.00	1.50	3.00	5.00
BVPS	104.29	111.10	124.52	143.76
Return Ratios				
RoACE (%)	6.57	10.66	12.52	18.99
RoAE (%)	5.07	9.45	13.06	18.72
Balance Sheet Ratios				
Net Debt-Equity Ratio	1.16	0.83	0.80	0.63
Current Ratio	2.21	1.18	2.29	2.72
Interest Cover Ratio	1.82	2.84	3.69	6.37
Efficiency Ratios				
Total Asset Turnover	0.71	0.70	0.82	0.93
Inventory Days	75	75	66	71
Debtors Days	30	35	30	25
Creditors Days	19	25	22	20
Valuations				
P/E	41.58	29.91	23.67	14.50
P/BV	2.06	2.74	2.92	2.53
Dividend Yield (%)	0.47%	0.49%	0.82%	1.37%
Market Cap / Sales	1.39	2.02	2.03	1.65
EV/EBIDTA	12.31	11.81	11.86	7.92

Balance Sheet

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
SOURCES OF FUNDS				
Share Capital	238	238	238	238
Reserves	24583	26214	29411	33992
Total Networth	24821	26452	29649	34230
Total Debt	29288	22636	25638	24243
Total Liabilities	54109	49088	55287	58473
APPLICATION OF FUNDS				
Net Block	46411	48662	46070	43496
Capital Work in Progress	3542	2720	3500	4000
Investments	2834	3558	3558	4558
Total Current Assets	15898	15763	17806	22558
Total Current Liabilities	7203	13344	7770	8291
Net Current Assets	8695	2419	10036	14267
Net Deferred Tax	(7374)	(8271)	(8251)	(8221)
Total Assets	54109	49088	54914	58100

Cash Flow

Y/E March (INR mn)	FY14	FY15	FY16E	FY17E
EBT	1543	3564	4762	9105
Depreciation	3063	2499	2793	2874
Interest	1890	1938	1772	1696
Inc./Dec. in working capital	(1410)	6449	(6453)	(3324)
Tax paid	(323)	(88)	(1428)	(3096)
Other Income	(857)	(1379)	(785)	(850)
Cash flow from operations (a)	3905	12984	659	6405
Inc./Dec. in investments	(176)	(724)	0	(1000)
Change in Fixed Assets	(2425)	(4750)	(200)	(300)
Change in CWIP	(1972)	823	(781)	(500)
Others	70	384	75	75
Cash flow from investing (b)	(4504)	(4268)	(906)	(1725)
Inc./Dec. in capital	0	0	0	0
Inc./Dec. in debts	2618	(6652)	3001	(1394)
Dividend paid	(238)	(357)	(714)	(1190)
Interest paid	(1890)	(1345)	(1772)	(1696)
Others	15	(190)	895	507
Cash flow from financing (c)	505	(8543)	1411	(3774)
Opening cash balance	540	446	619	1783
Cash Flow during the year (a+b+c)	(93)	172	1164	906
Closing cash balance	446	618	1783	2689

Sharad Avasthi

Head - Equity Research

sharad.avasthi@spagroupindia.com

Tel.: +91-33-4011 4800

Ext.832

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CDSL DP	IN-DP-CDSL-485-2008
NSDL DP	IN-DP-NSDL-316-2009