

May 30, 2017

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Rating	BUY
Price	Rs688
Target Price	Rs780
Implied Upside	13.4%
Sensex	31,159
Nifty	9,625

(Prices as on May 30, 2017)

Trading data

Market Cap. (Rs bn)	161.9
Shares o/s (m)	235.4
3M Avg. Daily value (Rs m)	155.9

Major shareholders

Promoters	42.30%
Foreign	15.46%
Domestic Inst.	23.01%
Public & Other	19.23%

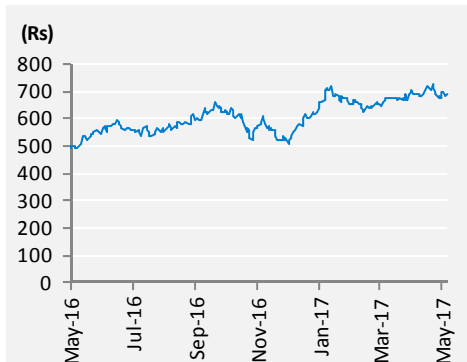
Stock Performance

(%)	1M	6M	12M
Absolute	0.9	13.0	37.9
Relative	(3.3)	(3.9)	21.3

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	27.7	31.8	-13.1
2019	32.8	37.0	-11.3

Price Performance (RIC: TRCE.BO, BB: TRCL IN)



Source: Bloomberg

The Ramco Cements (TRCL) reported Q4FY17 earnings tad below our expectation due to higher spend on advertisement and sales promotion (ASP). We keep our earnings estimates unchanged for FY18/FY19 as higher prices and lower ASP cost would support the margins. TRCL remains the best play on Southern region given its quality operations and presence in highly profitable regions. Though the demand is not expected to be strong in region due to slow Govt spending and weak IHB demand, prices are expected to remain firm due to tight discipline. Given the highly competitive operations and strong management pedigree, we maintain BUY with a TP of Rs780, an EV/EBITDA of 15x FY19E.

■ **Volumes up 9% YoY; EBITDA/t down 29% YoY:** Thanks to low base and steady demand, cement volumes grew 9% YoY at 2.28 mn tonnes (PLe: 2.27mn tonnes). Realisations fell 3.5%/Rs162 YoY (↓5%/Rs230 QoQ) at Rs4,450 (PLe: Rs4,484). Total cost/t rose 9%/Rs275 YoY at Rs3,400 (PLe:Rs.3,373) on account of higher ASP expense (additional Rs60/t) and charge of Rs58m towards impairment of some assets. Hence, EBITDA/t fell 29% YoY to Rs1,052 below our estimate of Rs1,110. EBITDA fell 23% YoY at Rs2.4bn (PLe:Rs2.5bn). Partially aided by 55% fall in interest cost, PAT fell 18% YoY to Rs1.35bn (PLe:Rs1.48bn).

■ **Debt reduced by ~1/3rd in FY17:** Thanks to higher EBITDA and continuous reduction in working capital, company reduced debt by Rs6.9bn in FY17 to Rs14.2bn. Majority of the debt is interest free in form of deferred sales tax or soft loan from State Govt.

Key financials (Y/e March)

	2016	2017	2018E	2019E
Revenues (Rs m)	35,076	38,569	42,896	47,938
Growth (%)	(0.9)	10.0	11.2	11.8
EBITDA (Rs m)	10,059	10,837	11,284	12,689
PAT (Rs m)	5,008	6,493	6,514	7,722
EPS (Rs)	21.0	27.3	27.7	32.8
Growth (%)	113.3	29.6	1.5	18.5
Net DPS (Rs)	0.9	4.4	5.7	8.1

Profitability & Valuation

	2016	2017	2018E	2019E
EBITDA margin (%)	28.7	28.1	26.3	26.5
RoE (%)	17.5	19.2	17.0	17.9
RoCE (%)	10.8	12.5	12.1	13.2
EV / EBITDA (x)	18.4	16.4	15.3	13.3
EV / Tonne (\$)	167.8	161.1	156.6	153.3
PE (x)	32.7	25.2	24.9	21.0
P / BV (x)	5.3	4.5	4.0	3.5
Net dividend yield (%)	0.1	0.6	0.8	1.2

Source: Company Data; PL Research

Exhibit 1: Q4FY17 Result Overview (Rs m)

Y/e March	Q4FY17	Q4FY16	YoY gr. (%)	Q3FY17	FY17	FY16	YoY gr. (%)
Net Sales	10,132	9,616	5.4	9,308	38,569	35,076	10.0
Raw Material	1,962	1,542	27.3	1,649	6,866	5,888	16.6
<i>% of Net Sales</i>	<i>19.4</i>	<i>16.0</i>		<i>17.7</i>	<i>17.8</i>	<i>16.8</i>	
Staff Costs	673	631	6.6	698	2,777	2,587	7.4
<i>% of Net Sales</i>	<i>6.6</i>	<i>6.6</i>		<i>7.5</i>	<i>7.2</i>	<i>7.4</i>	
Power & Fuel	1,406	1,302	8.0	1,283	5,185	5,270	(1.6)
<i>% of Net Sales</i>	<i>13.9</i>	<i>13.5</i>		<i>13.8</i>	<i>13.4</i>	<i>15.0</i>	
Freight and selling expenses	2,052	1,857	10.5	1,771	7,383	6,719	9.9
<i>% of Net Sales</i>	<i>20.3</i>	<i>19.3</i>		<i>19.0</i>	<i>19.1</i>	<i>19.2</i>	
Other Expenses	1,644	1,180	39.4	1,283	5,521	4,553	21.3
<i>% of Net Sales</i>	<i>16.2</i>	<i>12.3</i>		<i>13.8</i>	<i>14.3</i>	<i>13.0</i>	
Total Expenditure	7,737	6,511	18.8	6,685	27,731	25,017	10.9
EBITDA	2,396	3,104	(22.8)	2,623	10,837	10,059	7.7
<i>Margin (%)</i>	<i>23.6</i>	<i>32.3</i>		<i>28.2</i>	<i>28.1</i>	<i>28.7</i>	
Depreciation	664	1,031	(35.6)	661	2,655	3,048	(12.9)
Other income	188	234	(19.8)	340	1,355	1,366	(0.8)
EBIT	1,919	2,307	(16.8)	2,302	9,537	8,377	13.8
Interest	201	450	(55.3)	261	1,035	1,819	(43.1)
PBT	1,718	1,858	(7.5)	2,040	8,502	6,558	29.6
Extraordinary income/(expense)	-	175		-	-	175	
PBT (After EO)	1,718	2,033	(15.5)	2,040	8,502	6,734	26.3
Tax	373	209	78.8	522	2,009	1,550	29.6
<i>% PBT</i>	<i>21.7</i>	<i>10.3</i>		<i>25.6</i>	<i>23.6</i>	<i>23.0</i>	
Reported PAT	1,345	1,824	(26.3)	1,519	6,493	5,422	19.8
Adjusted PAT	1,345	1,649	(18.5)	1,519	6,493	5,008	29.6

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q4FY17	Q4FY16	YoY gr. (%)	Q3FY17	FY17	FY16	YoY gr. (%)
Volume (m te)-Cement	2.28	2.09	9.2	1.99	8.38	7.24	15.8
Cement Realisations (Rs/te)	4,450	4,612	(3.5)	4,682	4,605	4,848	(5.0)
Cement EBITDA/ te (Rs/te)	1,052	1,489	(29.3)	1,319	1,294	1,390	(6.9)

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	35,076	38,569	42,896	47,938
Raw Material Expenses	5,888	6,866	7,749	8,658
Gross Profit	29,187	31,703	35,147	39,279
Employee Cost	2,587	2,777	3,080	3,388
Other Expenses	16,542	18,088	20,783	23,203
EBITDA	10,059	10,837	11,284	12,689
Depr. & Amortization	3,048	2,655	2,735	2,798
Net Interest	1,819	1,035	741	638
Other Income	1,429	1,355	1,497	1,779
Profit before Tax	6,622	8,501	9,306	11,031
Total Tax	1,550	2,009	2,792	3,309
Profit after Tax	5,071	6,493	6,514	7,722
Ex-Od items / Min. Int.	63	—	—	—
Adj. PAT	5,008	6,493	6,514	7,722
Avg. Shares O/S (m)	238.1	238.1	235.5	235.5
EPS (Rs.)	21.0	27.3	27.7	32.8

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	10,628	10,011	9,535	10,702
C/F from Investing	(2,106)	(1,646)	(3,028)	(5,219)
C/F from Financing	(8,011)	(8,035)	(5,391)	(3,772)
Inc. / Dec. in Cash	510	330	1,116	1,711
Opening Cash	573	838	1,168	2,284
Closing Cash	1,083	1,168	2,284	3,995
FCFF	3,145	7,815	6,861	8,439
FCFE	(1,918)	815	4,861	6,439

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	(0.9)	10.0	11.2	11.8
EBITDA (%)	65.2	7.7	4.1	12.4
PAT (%)	113.3	29.6	0.3	18.5
EPS (%)	113.3	29.6	1.5	18.5
Profitability				
EBITDA Margin (%)	28.7	28.1	26.3	26.5
PAT Margin (%)	14.3	16.8	15.2	16.1
RoCE (%)	10.8	12.5	12.1	13.2
RoE (%)	17.5	19.2	17.0	17.9
Balance Sheet				
Net Debt : Equity	0.7	0.4	0.3	0.2
Net Wrkng Cap. (days)	196	178	189	194
Valuation				
PER (x)	32.7	25.2	24.9	21.0
P / B (x)	5.3	4.5	4.0	3.5
EV / EBITDA (x)	18.4	16.4	15.3	13.3
EV / Sales (x)	5.3	4.6	4.0	3.5
Earnings Quality				
Eff. Tax Rate	23.4	23.6	30.0	30.0
Other Inc / PBT	20.8	15.9	16.1	16.1
Eff. Depr. Rate (%)	4.0	3.4	3.5	3.5
FCFE / PAT	(38.3)	12.6	74.6	83.4

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	30,926	36,538	40,119	46,140
Total Debt	22,056	15,056	13,056	11,056
Other Liabilities	13,723	14,114	15,202	16,474
Total Liabilities	66,706	65,708	68,376	73,670
Net Fixed Assets	50,657	49,996	50,661	53,663
Goodwill	—	—	—	—
Investments	3,654	3,654	3,654	3,654
Net Current Assets	12,395	12,058	14,061	16,353
<i>Cash & Equivalents</i>	908	1,238	2,354	4,065
<i>Other Current Assets</i>	15,033	14,949	16,477	17,951
<i>Current Liabilities</i>	3,546	4,129	4,769	5,663
Other Assets	—	—	—	—
Total Assets	66,706	65,708	68,376	73,670

Quarterly Financials (Rs m)

Y/e March	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Revenue	9,429	9,700	9,308	10,132
EBITDA	2,750	3,068	2,623	2,396
<i>% of revenue</i>	29.2	31.6	28.2	23.6
Depr. & Amortization	663	667	661	664
Net Interest	(19)	(236)	(79)	14
Other Income	310	517	340	188
Profit before Tax	2,106	2,637	2,040	1,718
Total Tax	547	567	522	373
Profit after Tax	1,559	2,070	1,519	1,345
Adj. PAT	1,559	2,070	1,519	1,345

Key Operating Metrics

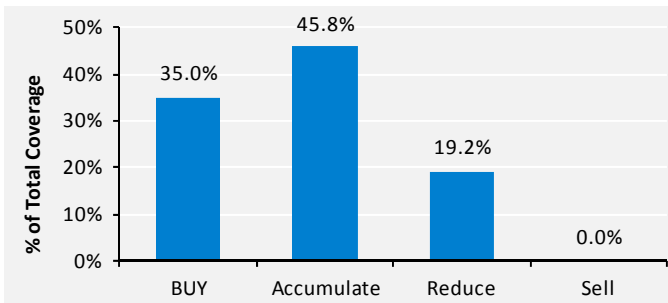
Y/e March	2016	2017	2018E	2019E
Volume (mn te)-Cement	7.2	8.4	9.0	9.8
Cement Realisations-Cement (Rs/te)	4,848.0	4,562.6	4,699.5	4,864.0
Cement EBITDA (Rs/te)	1,390.3	1,294.4	1,247.6	1,298.9
Raw material cost (Rs/te)	813.8	831.6	856.7	886.3
Power & Fuel cost (Rs/te)	728.4	617.1	728.7	763.0
Freight cost (Rs/te)	928.7	882.2	908.7	935.9

Source: Company Data, PL Research.

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
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