

The Ramco Cements | HOLD

In-line results; announces 3.1MTPA expansion in East India

Ramco reported in-line results with revenue growth at 7% YoY, aided by volume/realisation growth of 3.6%/1.4% YoY, respectively. EBITDA/t declined by 5.4% YoY as power/fuel and freight cost escalations more than offset the realisation growth. Other operating income for the quarter was higher YoY on an increase in wind farm income (Rs259mn in 1QFY18 vs Rs200mn in 1QFY17) and receipt of Rs90mn on account of industrial promotion assistance. The Company is expanding its grinding capacity from 16.5MTPA to 19.6MTPA via expansion in its West Bengal/ Vizag grinding units (1.1MTPA each) and entering the Odisha market with 0.9MTPA capacity. We roll forward the TP; valuing the stock at 10x EVE to arrive at a TP of Rs625 (Sep'18). Maintain Hold.

- Volume/realisation growth drive revenues:** Revenue for the quarter stood at Rs10.3bn, +7% YoY, in line with estimates, driven by volumes at 2.15mnT, +3.6% YoY (vs 2.13mnT JMFe). Volumes were driven by higher demand from the East India market, offsetting the impact of drought and sand shortage faced in the South. Cement realisation stood at Rs4,607/t, growing sequentially by 3.5% (1.4% YoY), in line with our estimates. Other operating income for the quarter stood at Rs383mn (vs Rs216mn in 1QFY17), growing primarily on an increase in wind revenues (Rs259mn in 1QFY18 vs Rs200mn in 1QFY17) and the receipt of Rs90mn on account of Industrial promotion assistance. Wind farms generated 93.5mn units in 1QFY18 vs 70.6mn units during the same period last year.
- Power/fuel, freight cost escalations impact margins:** EBITDA for the quarter stood at Rs2.9bn (in line with estimates), a YoY decline of 2%. Blended EBITDA/t for the quarter was Rs1,351/t, -5.4% YoY (vs Rs1,371/t JMFe). Lower-than-expected raw material costs were offset by higher-than-expected power and fuel costs. The decline in EBITDA/t was primarily on account of higher power and fuel costs (-Rs159/t impact) and higher freight costs (-Rs77/t impact) more than offsetting the realisation growth (Rs140/t impact) and lower raw material costs (Rs67/t impact). Power/fuel costs were higher on account of the increase in pet coke prices and the freight cost escalation was driven by the increase in diesel prices as well as the busy season surcharge applicable during the quarter.
- 3.1MTPA grinding expansion by FY19:** Ramco is undertaking grinding capacity expansion in AP, West Bengal and Odisha - 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) setting up 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. Expansion is slated to be completed in 18 months, at an estimated cost of Rs10.95bn (US\$55/t), to be met through a mix of borrowings and internal accruals. 4MTPA split grinding units (2.2MTPA in TN, 0.9MTPA in Kolaghat and 0.9MTPA in Vizag, AP) are operating at 58% capacity utilisation
- Maintain HOLD:** Ramco is trading at valuations of 12/9.5x EV/EBITDA based on FY19E/20E. We value the stock at 10x EV/EBITDA to arrive at a TP of Rs625 (Sep'18).



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Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	625
Upside/(Downside)	-10.1%
Previous Price Target	600
Change	4.2%

Key Data – TRCL IN

Current Market Price	Rs695
Market cap (bn)	Rs165.5/US\$2.6
Free Float	52%
Shares in issue (mn)	238.1
Diluted share (mn)	238.1
3-mon avg daily val (mn)	Rs166.7/US\$0.2
52-week range	770/473
Sensex/Nifty	32,477/10,082
Rs/US\$	63.7

Price Performance

%	1M	6M	12M
Absolute	-0.2	-1.1	29.6
Relative*	-3.7	-13.6	11.0

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters
S&P Capital IQ and FactSet

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

Financial Summary					(Rs mn)
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	35,592	39,469	43,986	49,744	61,021
Sales Growth (%)	-1.3	10.9	11.4	13.1	22.7
EBITDA	10,765	11,894	13,310	14,660	17,571
EBITDA Margin (%)	30.1	30.0	29.7	28.9	28.4
Adjusted Net Profit	5,452	6,627	7,410	8,266	10,345
Diluted EPS (Rs.)	22.9	27.8	31.1	34.7	43.5
Diluted EPS Growth (%)	121.5	21.6	11.8	11.5	25.2
ROIC (%)	12.6	14.7	15.2	15.2	17.8
ROE (%)	18.9	19.1	18.1	17.4	18.8
P/E (x)	30.3	25.0	22.3	20.0	16.0
P/B (x)	5.3	4.4	3.8	3.3	2.8
EV/EBITDA (x)	17.3	15.0	13.3	12.1	9.6
Dividend Yield (%)	0.4	0.4	0.7	0.7	0.9

Source: Company data, JM Financial. Note: Valuations as of 03/Aug/2017

Details of 0.9MTPA Odisha grinding unit:

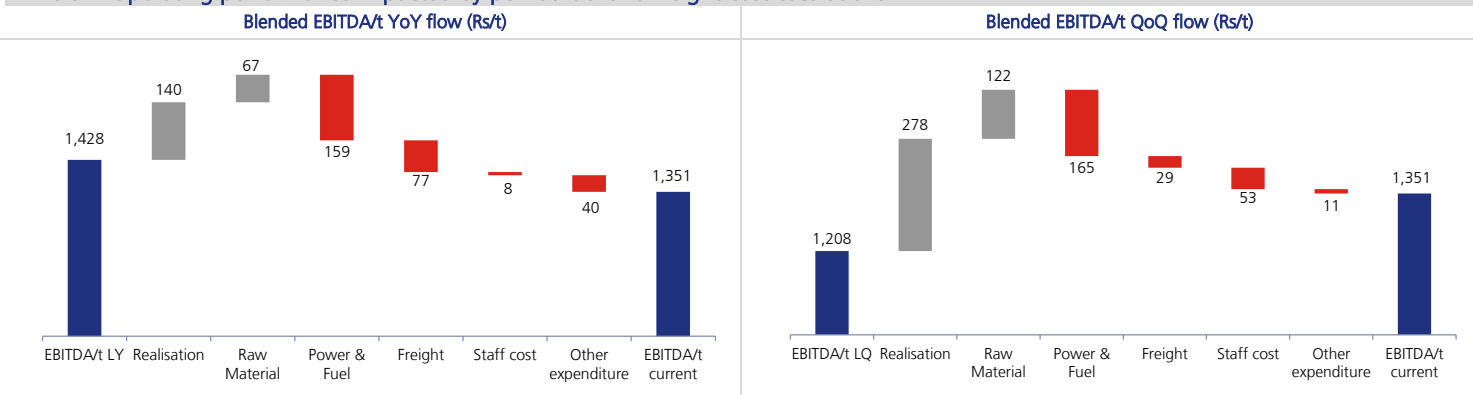
- Ramco in Odisha will be located at Haridaspur, in Jajpur district.
- Ramco is currently marketing about 1-2MTPA of cement in Odisha and West Bengal as per company filings. With the expansion in Odisha, Ramco can meet the demand with lower freight costs.
- Raw material requirements for the grinding unit are proposed to be met by:

Exhibit 1. Raw Material sourcing

RM	Source	Transportation mode
Clinker	TRCL plant in Jayanthipuram	Rail
Gypsum	Paradeep Phosphates Ltd, Paradeep	Rail
BF Slag	Bhushan Steel, Dhenkanal	Rail
Dry Fly Ash	IMFA, FACOR located in Jajpur, Odisha	Rail

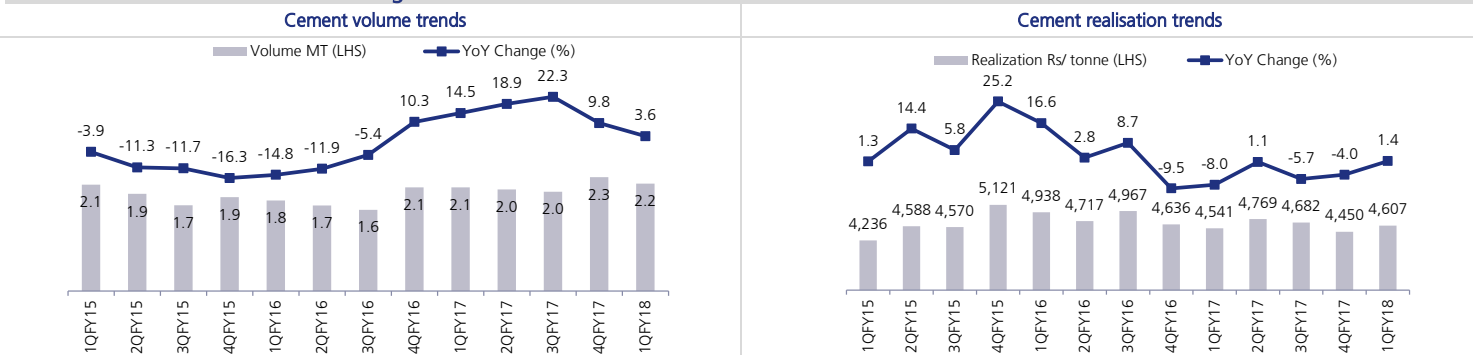
Source: Company, JM Financial, Industry

Exhibit 2. Operating performance impacted by power/fuel and freight cost escalations



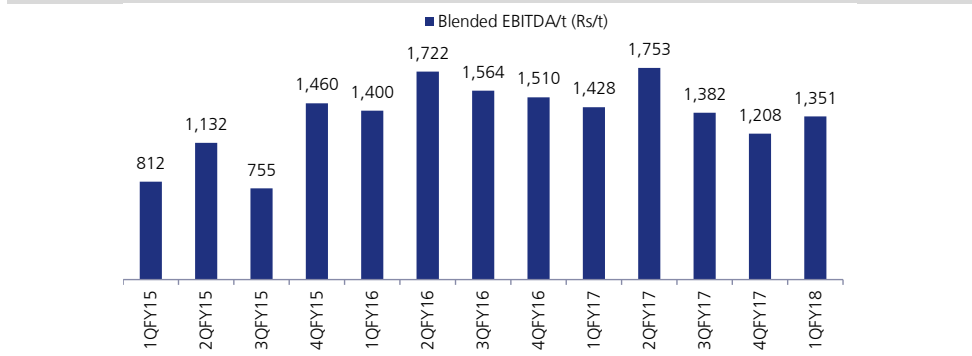
Source: Company, JM Financial

Exhibit 3. Cement volume/realisation growth aids cement revenue



Source: Company, JM Financial

Exhibit 4. EBITDA/t trends



Source: Company, JM Financial

Exhibit 5. Results in brief

	(Rs mn)							
	1QFY18	1QFY17	%YoY	4QFY17	%QoQ	FY18E	FY17	%YoY
Net Sales(excluding excise)	9,905	9,428	5.1	10,132	-2.2	43,727	38,568	13.4
Other Operating Income	383	216	77.3	130	194.7	880	969	-9.2
Total Revenues	10,288	9,644	6.7	10,262	0.3	44,607	39,536	12.8
Expenditure	7,384	6,679	10.6	7,512	-1.7	31,555	27,506	14.7
EBITDA	2,904	2,965	-2.0	2,750	5.6	13,051	12,030	8.5
% margin	28.2	30.7	-250bps	26.8	+140bps	29.3	30.4	-110bps
Other income	52	96		58		399	387	
Interest	155	291	-47.0	201	-23.2	653	1,035	-36.9
Depreciation	720	663	8.6	664	8.4	3,035	2,655	14.3
PBT	2,082	2,106	-1.1	1,943	7.2	9,761	8,727	11.9
Tax	524	547	-4.1	373	40.5	2,605	2,009	29.7
% tax rate	25.2	26.0		19.2		26.7	23.0	
PAT (Reported)	1,558	1,559	-0.1	1,570		7,156	6,718	6.5
EPS (Rs)	6.8	6.5	-0.1	6.8	-0.7	31.1	29.2	6.5
Key Operational matrix								
Cement sales (mn tonnes)	2.15	2.08	3.6	2.28	-5.6	9.02	8.35	8.0
Realisation (Rs/tonne)	4,607	4,541	1.4	4,450	3.5	4,760	4,620	3.0
Cement EBITDA Rs/tonne	1,185	1,334	-11.2	1,152	2.8	1,272	1,315	-3.3
Blended EBITDA Rs/tonne	1,351	1,428	-5.4	1,208	11.8	1,476	1,441	2.4

Source: Company, JM Financial

Exhibit 6. Expenses breakdown

	(Rs mn)							
	1QFY18	1QFY17	%YoY	4QFY17	%QoQ	FY18E	FY17	%YoY
Raw material	1,799	1,617	11.2	1,832	-1.8	7,161	6,717	6.6
Rs/tonne	837	779	7.4	805	4.0	794	805	-1.3
Power and fuel	1,681	1,293	30.1	1,406	19.6	6,438	5,185	24.2
Rs/tonne	782	623	25.6	617	26.7	714	621	15.0
Freight	1,999	1,772	12.9	2,052	-2.6	8,211	7,383	11.2
Rs/tonne	930	853	9.0	901	3.2	911	884	3.0
(Inc)/dec in stock	-208	57	-462.7	130	-259.8	91	149	-39.1
Rs/tonne	-97	28	-450.2	57	-269.3	10	18	-43.6
Total Variable cost	5,271	4,739	11.2	5,420	-2.7	21,901	19,433	12.7
Rs/tonne	2,452	2,283	7.4	2,380	3.0	2,429	2,328	4.3
Staff cost	749	707	6.0	673	11.4	3,007	2,777	8.3
Rs/tonne	349	340	2.4	295	18.0	334	333	0.3
Other expenditure	1,363	1,233	10.5	1,419	-4.0	6,647	5,296	25.5
Rs/tonne	634	594	6.7	623	1.7	737	634	16.2
Total fixed cost	2,112	1,940	8.9	2,092	1.0	9,655	8,073	19.6
Rs/tonne	983	935	5.1	919	6.9	1,071	967	10.7
Tot expenditure excluding excise	7,384	6,679	10.6	7,512	-1.7	31,555	27,506	14.7
Cost Rs/tonne	3,434	3,217	6.8	3,299	4.1	3,500	3,295	6.2

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 Rs36bn (FY16). The company's current total cement production capacity is c.17MT. Ramco also produces Ready Mix Concrete & Dry Mortar products and operates one of the largest wind farms in the country.

Key investment arguments:

- Ramco would be a key beneficiary of the rising demand in South India (with 94% South-based capacity). While we expect Ramco to sustain industry-leading margins at CMP, the market has been adequately factoring in the benefits from its superior operating performance.

Key Risks

- With capacity utilisation under 50%, Ramco may capture the sizable incremental demand resulting from high growth in the southern region.

Valuation and View

- Ramco is trading at valuations of 12/9.5x EV/EBITDA based on FY19E/20E. We value the stock at 10x EV/EBITDA to arrive at TP of Rs625. We maintain our HOLD rating on the stock.

Exhibit 7. Volumes, realisation and cost outlook

	FY16	FY17	FY18E	FY19E	FY20E
Cement Sales (mn tonnes)	7.2	8.3	9.0	9.9	11.8
YoY Growth (%)	-6.1	16.0	8.0	10.1	19.1
Cement Realisations (Rs/tonne)	4,816	4,557	4,693	4,858	5,028
YoY Growth (%)	6.0	-5.4	3.0	3.5	3.5
Power & Fuel (Rs/tonne)	725	616	708	729	751
Freight (Rs/tonne)	925	877	903	930	958
Raw Material (Rs/tonne)	749	750	788	827	885
Cement EBIDTA (Rs/tonne)	1,385	1,297	1,262	1,289	1,333

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					
	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	35,592	39,469	43,986	49,744	61,021
Sales Growth	-1.3%	10.9%	11.4%	13.1%	22.7%
Other Operating Income	226	204	880	995	915
Total Revenue	35,818	39,673	44,866	50,739	61,936
Cost of Goods Sold/Op. Exp	5,543	6,466	7,252	8,580	10,775
Personnel Cost	2,594	2,785	3,007	3,411	4,178
Other Expenses	16,916	18,528	21,296	24,088	29,412
EBITDA	10,765	11,894	13,310	14,660	17,571
EBITDA Margin	30.1%	30.0%	29.7%	28.9%	28.4%
EBITDA Growth	49.5%	10.5%	11.9%	10.1%	19.9%
Depn. & Amort.	3,053	2,669	3,035	3,310	3,440
EBIT	7,712	9,226	10,275	11,350	14,131
Other Income	755	392	399	446	535
Finance Cost	1,838	1,049	653	619	680
PBT before Excep. & Forex	6,629	8,569	10,021	11,177	13,986
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,629	8,569	10,021	11,177	13,986
Taxes	1,317	2,027	2,605	2,906	3,636
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	142	110	5	5	5
Reported Net Profit	5,452	6,627	7,410	8,266	10,345
Adjusted Net Profit	5,452	6,627	7,410	8,266	10,345
Net Margin	15.2%	16.7%	16.5%	16.3%	16.7%
Diluted Share Cap. (mn)	238.1	238.1	238.1	238.1	238.1
Diluted EPS (Rs.)	22.9	27.8	31.1	34.7	43.5
Diluted EPS Growth	121.5%	21.6%	11.8%	11.5%	25.2%
Total Dividend + Tax	858	860	1,336	1,490	1,865
Dividend Per Share (Rs)	3.0	3.0	4.7	5.2	6.5

Source: Company, JM Financial

Cash Flow Statement					
	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profit before Tax	6,629	8,569	10,021	11,177	13,986
Depn. & Amort.	3,253	2,858	3,035	3,310	3,440
Net Interest Exp. / Inc. (-)	1,838	1,049	653	619	680
Inc (-) / Dec in WCap.	919	816	-1,393	-1,066	-1,226
Others	-267	-245	0	0	0
Taxes Paid	-1,484	-1,874	-2,605	-2,906	-3,636
Operating Cash Flow	10,888	11,174	9,711	11,134	13,244
Capex	-2,980	-3,048	-6,258	-8,692	-2,500
Free Cash Flow	7,908	8,126	3,453	2,443	10,744
Inc (-) / Dec in Investments	198	-30	0	0	0
Others	176	276	0	0	0
Investing Cash Flow	-2,606	-2,802	-6,258	-8,692	-2,500
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-1,291	0	-1,336	-1,490	-1,865
Inc / Dec (-) in Loans	-6,566	-5,545	-1,000	0	-5,000
Others	-142	-2,541	-653	-619	-680
Financing Cash Flow	-8,000	-8,086	-2,989	-2,109	-7,545
Inc / Dec (-) in Cash	282	286	463	333	3,199
Opening Cash Balance	629	911	1,198	1,661	1,994
Closing Cash Balance	911	1,198	1,661	1,994	5,193

Source: Company, JM Financial

Balance Sheet					
	(Rs mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Shareholders' Fund	31,331	37,955	44,029	50,804	59,284
Share Capital	238	238	238	238	238
Reserves & Surplus	31,093	37,717	43,791	50,566	59,046
Preference Share Capital	0	0	0	0	0
Minority Interest	7	19	24	29	34
Total Loans	21,404	14,372	13,372	13,372	8,372
Def. Tax Liab. / Assets (-)	7,084	7,215	7,215	7,215	7,215
Total - Equity & Liab.	59,826	59,561	64,640	71,420	74,905
Net Fixed Assets	51,731	51,851	55,074	60,456	59,516
Gross Fixed Assets	76,623	79,350	85,608	94,300	96,800
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	26,360	28,701	31,736	35,046	38,486
Capital WIP	1,468	1,203	1,203	1,203	1,203
Investments	3,267	3,562	3,562	3,562	3,562
Current Assets	14,445	15,292	17,571	19,986	27,264
Inventories	5,502	5,766	6,628	7,496	9,195
Sundry Debtors	4,721	5,549	6,184	6,993	8,579
Cash & Bank Balances	911	1,198	1,661	1,994	5,193
Loans & Advances	345	422	471	532	653
Other Current Assets	2,966	2,357	2,627	2,971	3,644
Current Liab. & Prov.	9,617	11,145	11,567	12,584	15,437
Current Liabilities	2,148	2,562	2,651	2,998	3,678
Provisions & Others	7,469	8,582	8,916	9,586	11,759
Net Current Assets	4,828	4,147	6,003	7,403	11,827
Total - Assets	59,826	59,561	64,640	71,420	74,905

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Margin	15.2%	16.7%	16.5%	16.3%	16.7%
Asset Turnover (x)	0.6	0.7	0.7	0.7	0.8
Leverage Factor (x)	2.1	1.7	1.5	1.4	1.3
RoE	18.9%	19.1%	18.1%	17.4%	18.8%

Key Ratios

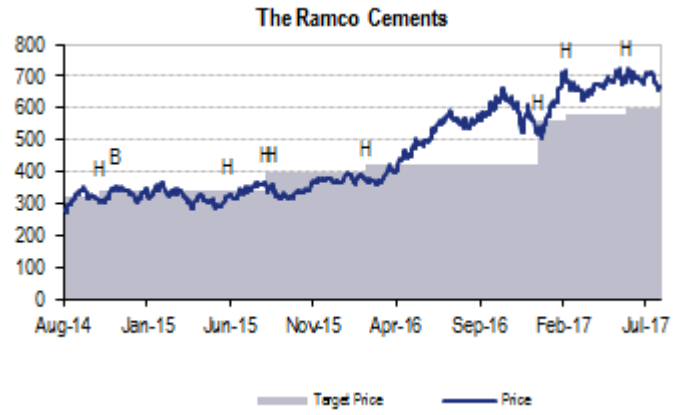
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
BV/Share (Rs.)	131.6	159.4	184.9	213.4	249.0
ROIC	12.6%	14.7%	15.2%	15.2%	17.8%
ROE	18.9%	19.1%	18.1%	17.4%	18.8%
Net Debt/Equity (x)	0.7	0.3	0.3	0.2	0.1
P/E (x)	30.3	25.0	22.3	20.0	16.0
P/B (x)	5.3	4.4	3.8	3.3	2.8
EV/EBITDA (x)	17.3	15.0	13.3	12.1	9.6
EV/Sales (x)	5.2	4.5	3.9	3.5	2.7
Debtor days	48	51	50	50	51
Inventory days	56	53	54	54	54
Creditor days	31	34	31	30	30

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (Rs)	% Chg.	FY19E EPS (Rs)	% Chg.	Target Price	% Chg.
6-Jun-14					330	
17-Jul-14					330	0.0
18-Jul-14					350	6.1
31-Jul-14					320	-8.6
10-Oct-14					340	6.3
6-Nov-14					340	0.0
1-Jun-15					340	0.0
10-Aug-15	25.8				400	17.6
19-Aug-15	25.8	0.0			400	0.0
9-Feb-16	23.7	-8.1			420	5.0
19-Dec-16	28.6	20.7	33.4		560	33.3
8-Feb-17	28.3	-1.2	32.9	-1.4	580	3.6
30-May-17	31.9	12.8	34.8	5.7	600	3.4

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U65192MH1995PLC092522

Member of BSE Ltd. and National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.

SEBI Registration Nos.: BSE - INZ010012532, NSE - INZ230012536 and MSEI - INZ260012539, Research Analyst – INH000000610

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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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