

# The Ramco Cements | HOLD

## Cost escalations impact margins; volume growth encouraging

The Ramco Cements Limited (Ramco) reported 5% YoY revenue growth in 2QFY18, aided by cement volume growth of 5.8% despite the sand shortage in Tamil Nadu. Realisations remained stable YoY, while prices realised improved 4% sequentially. However, EBITDA/t declined 17% YoY as power/fuel and freight cost escalations impacted profitability. Wind farm revenues declined as generation during the quarter was 20% lower YoY. The company is augmenting its grinding capacity from 16.5 MTPA to 19.6 MTPA via expansion in its West Bengal/Vizag grinding units; it is also entering the Odisha market. We value the stock at 10x EVE to arrive at a TP of INR 625 (Sep'18). We maintain Hold.

- Volumes drive +5% revenue growth:** Revenue for the quarter stood at INR 10.7bn, up 5% YoY, driven primarily by volumes of 2.15mnT, +5.8% YoY (vs. 2.0mnT - JMFe). Volumes were driven by higher demand from eastern India, offsetting the impact of drought and sand shortage in the South. Cement realisations came in at INR 4,783/t, growing 3.8% sequentially (flat YoY). Other operating income for the quarter was reported at INR 371mn vs. INR 457mn in 2QFY17, as wind farm revenues declined to INR 340mn in 2QFY18 from INR 424mn in 2QFY17, primarily on lower generation (-20% YoY: 121mn units vs. 151mn units).
- Power/fuel, freight cost escalations impact margins:** Adjusted EBITDA for 2QFY18 – at INR 2.94bn – declined 16.6% (adjusted for provision reversal of INR 76.7mn). Blended EBITDA/t for the quarter was INR1,366/t, -21% YoY. The decline in EBITDA/t took place primarily on account of higher power and fuel costs (-INR210/t impact) as well as higher freight costs (-INR100/t impact). In addition, raw material costs declined during the quarter (INR 37/t of positive impact). As per management, the previous petcoke inventory build-up (at lower costs) has been exhausted and fuel cost escalations have impacted margins. Freight cost escalations were driven by the increase in diesel prices (+7% YoY for the quarter). Cement/power segment reported EBITDA of INR 2,722mn/INR 294mn in 2QFY18. PAT was reported at INR 1.7bn, down 19% YoY.
- Other details:** i) Ramco completed the buyback of 2.5mn shares (representing 1.05% of the paid up capital) for INR 1.68bn (average price of INR 670.8/share). ii) Ramco has subscribed to the Rights issue offer of Lynks Logistics Limited and has acquired 48.1mn shares for INR 48.1mn. Consequently, Ramco Cements' shareholding in the logistics company stands at 100mn (47.62% of the paid up capital from 47.18% earlier). Lynks Logistics is a technology platform that aggregates transport service providers and connects them with customers. iii) Ramco wind farms generated 19mn units (INR 76mn) in 2QFY18 vs. 25.8mn units (INR 103.8mn) during the same period last year.
- Maintain HOLD:** Ramco is trading at valuations of 12.9/9.9x EV/EBITDA based on FY19E/20E. We value the stock at 10x EV/EBITDA to arrive at a TP of INR 625 (Sep'18). We maintain HOLD.



Abhishek Anand CFA

abhishek.anand@jmfl.com | Tel: (91 22) 66303067

Roshan Paunikar

roshan.paunikar@jmfl.com | (91 22) 66303563

### Recommendation and Price Target

Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	625
Upside/(Downside)	-13.4%
Previous Price Target	625
Change	0.0%

### Key Data – TRCL IN

Current Market Price	INR721
Market cap (bn)	INR171.7/US\$2.7
Free Float	50%
Shares in issue (mn)	235.6
Diluted share (mn)	235.6
3-mon avg daily val (mn)	INR195.1/US\$3.0
52-week range	770/473
Sensex/Nifty	33,600/10,441
INR/US\$	64.6

### Price Performance

%	1M	6M	12M
Absolute	4.2	4.9	14.8
Relative*	-3.0	-6.6	-4.8

\* To the BSE Sensex

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

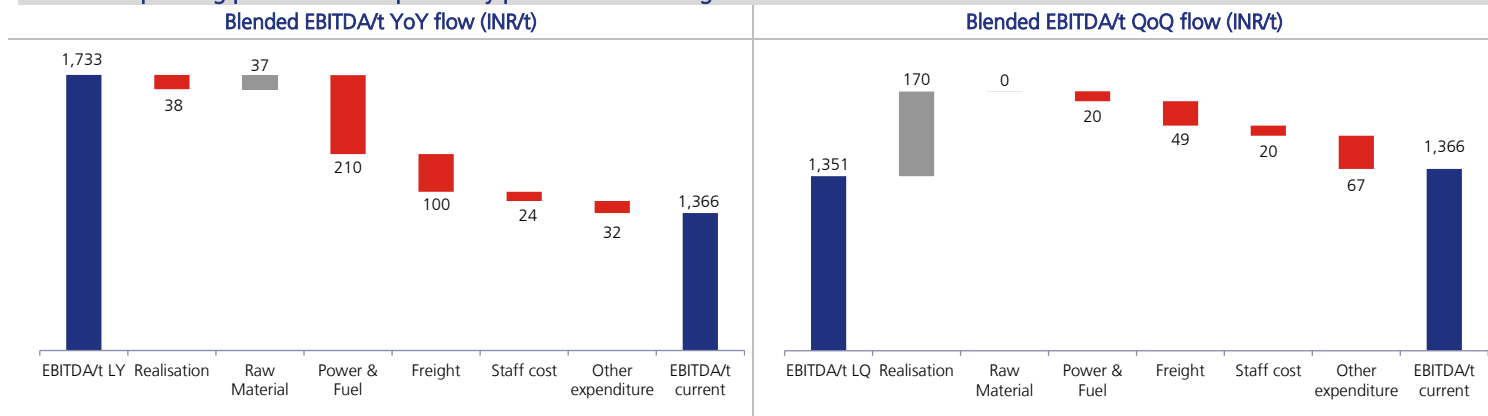
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

### Financial Summary

Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E
Net Sales	35,592	39,469	43,814	50,450	62,479
Sales Growth (%)	-1.3	10.9	11.0	15.1	23.8
EBITDA	10,765	11,894	12,430	14,158	17,548
EBITDA Margin (%)	30.1	30.0	27.8	27.5	27.7
Adjusted Net Profit	5,452	6,627	7,023	7,839	10,277
Diluted EPS (INR)	22.9	27.8	29.8	33.3	43.6
Diluted EPS Growth (%)	121.5	21.6	7.1	11.6	31.1
ROIC (%)	12.6	14.7	14.5	14.4	17.7
ROE (%)	18.9	19.1	17.6	17.3	19.5
P/E (x)	31.5	25.9	24.2	21.7	16.5
P/B (x)	5.5	4.5	4.0	3.5	3.0
EV/EBITDA (x)	17.7	15.4	14.8	13.0	10.0
Dividend Yield (%)	0.4	0.4	0.6	0.7	0.9

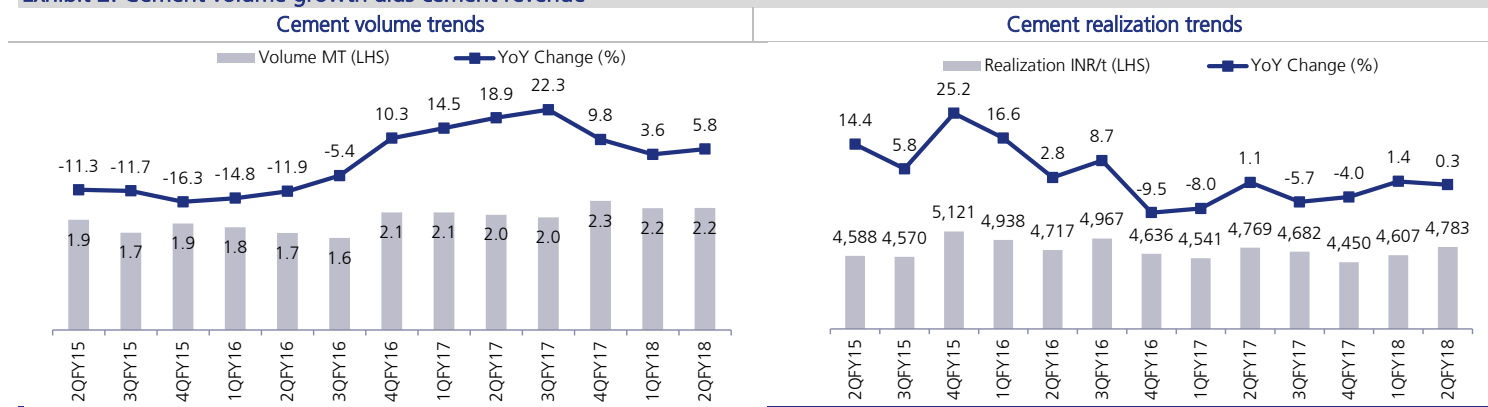
Source: Company data, JM Financial. Note: Valuations as of 01/Nov/2017

Exhibit 1. Operating performance impacted by power/fuel and freight costs



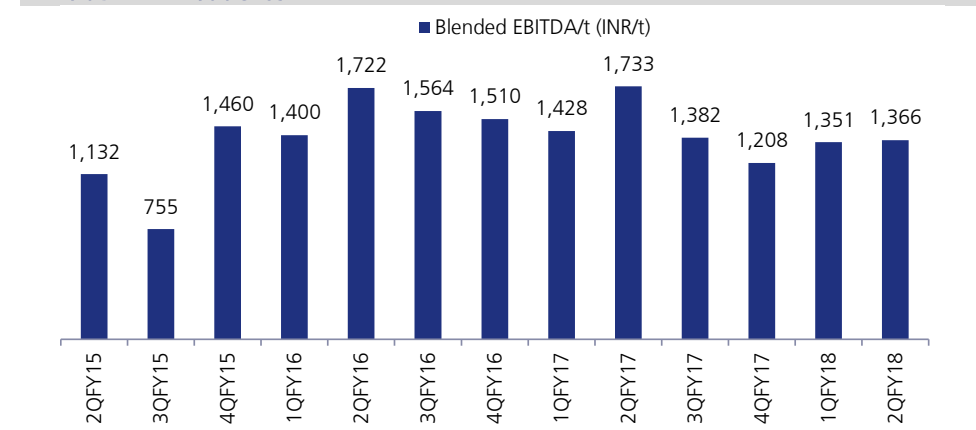
Source: Company, JM Financial

Exhibit 2. Cement volume growth aids cement revenue



Source: Company, JM Financial

Exhibit 3. EBITDA/t trends



Source: Company, JM Financial

## Exhibit 4. Results in brief

	(INR mn)										
INR mn	2QFY18	2QFY17	%YoY	1QFY18	%QoQ	1H FY18	1H FY17	%YoY	FY18E	FY17	%YoY
<b>Net Sales (excluding excise)</b>	<b>10,293</b>	<b>9,700</b>	6.1	<b>9,905</b>	3.9	<b>20,199</b>	<b>19,128</b>	5.6	<b>42,314</b>	<b>38,568</b>	9.7
Other Operating Income	371	457	-18.9	383	-3.1	754	673	12.0	1,777	928	91.5
<b>Total Revenues</b>	<b>10,664</b>	<b>10,157</b>	<b>5.0</b>	<b>10,288</b>	<b>3.7</b>	<b>20,953</b>	<b>19,801</b>	<b>5.8</b>	<b>44,091</b>	<b>39,495</b>	<b>11.6</b>
Expenditure	7,726	6,631	16.5	7,384	4.6	15,110	13,310	13.5	32,260	27,506	17.3
<b>EBITDA</b>	<b>2,939</b>	<b>3,526</b>	<b>-16.6</b>	<b>2,904</b>	<b>1.2</b>	<b>5,843</b>	<b>6,491</b>	<b>-10.0</b>	<b>11,831</b>	<b>11,989</b>	<b>-1.3</b>
<b>% margin</b>	<b>27.6</b>	<b>34.7</b>	-720 bps	<b>28.2</b>	-70 bps	<b>27.9</b>	<b>32.8</b>	-490 bps	<b>26.8</b>	<b>30.4</b>	-350 bps
Other income	72	60	20.7	52	38.0	125	156	-19.8	398	428	-7.1
Interest	173	282	-38.7	155	11.8	327	573	-42.9	661	1,035	-36.1
Depreciation	718	667	7.7	720	-0.3	1,438	1,330	8.1	2,887	2,655	8.7
<b>PBT</b>	<b>2,120</b>	<b>2,637</b>	<b>-19.6</b>	<b>2,082</b>	<b>1.8</b>	<b>4,202</b>	<b>4,743</b>	<b>-11.4</b>	<b>8,680</b>	<b>8,727</b>	<b>-0.5</b>
Tax	512	567	-9.8	524	-2.4	1,036	1,114	-7.0	2,227	2,009	10.9
<b>% tax rate</b>	<b>24.1</b>	<b>21.5</b>		<b>25.2</b>		<b>24.6</b>	<b>23.5</b>		<b>25.7</b>	<b>23.0</b>	
<b>PAT (Adjusted)</b>	<b>1,609</b>	<b>2,070</b>	<b>-22.3</b>	<b>1,558</b>	<b>3.2</b>	<b>3,167</b>	<b>3,629</b>	<b>-12.8</b>	<b>6,453</b>	<b>6,718</b>	<b>-3.9</b>
Extraordinary items	77	0		0		0	0		0	0	
<b>PAT (Reported)</b>	<b>1,685</b>	<b>2,070</b>	<b>-18.6</b>	<b>1,558</b>	<b>8.2</b>	<b>3,167</b>	<b>3,629</b>	-12.8	<b>6,453</b>	<b>6,718</b>	-3.9
EPS (INR)	6.8	8.7	-21.5	6.5	4.3	13.4	15.2	-12.3	31.5	28.2	11.8
<b>Key Operational matrix</b>											
Cement sales (mn tonnes)	2.15	2.03	5.8	2.15	0.1	4.30	4.11	4.7	9.02	8.35	8.0
Realisation (INR/tonne)	4,783	4,769	0.3	4,607	3.8	4,695	4,654	0.9	4,760	4,620	3.0
Cement EBITDA INR/tonne	1,265	1,542	-18.0	1,249	1.3	1,203	1,429	-15.8	1,192	1,315	-9.4
Blended EBITDA INR/tonne	1,366	1,733	-21.2	1,351	1.1	1,358	1,579	-14.0	1,479	1,436	3.0

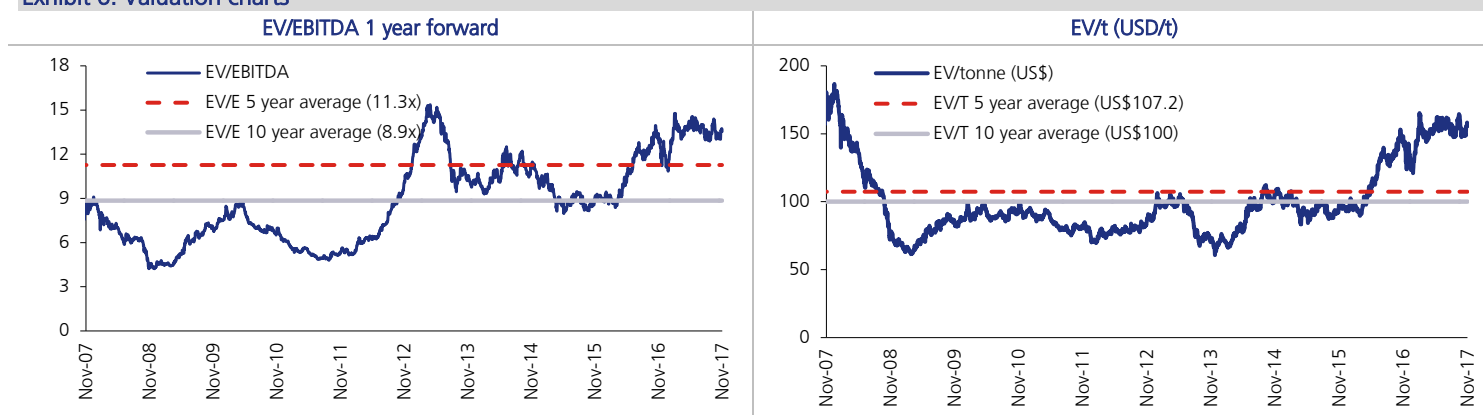
Source: Company, JM Financial

## Exhibit 5. Expense break-down

	(INR mn)										
	2QFY18	2QFY17	%YoY	1QFY18	%QoQ	1H FY18	1H FY17	%YoY	FY18E	FY17	%YoY
Raw material	1,745	1,652	5.6	1,799	-3.0	3,544	3,270	8.4	7,161	6,717	6.6
INR/tonne	811	812	-0.2	837	-3.1	824	795	3.5	794	805	-1.3
Power and fuel	1,725	1,203	43.4	1,681	2.6	3,407	2,496	36.5	7,278	5,185	40.4
INR/tonne	802	591	35.6	782	2.5	792	607	30.4	807	621	30.0
Freight	2,107	1,788	17.9	1,999	5.4	4,107	3,559	15.4	8,769	7,383	18.8
INR/tonne	979	879	11.4	930	5.3	955	866	10.2	973	884	10.0
(Inc/dec in stock	-154	-72	112.9	-208	-26.1	-361	-15	2341.2	-227	149	-252.1
INR/tonne	-71	-35	101.2	-97	-26.2	-84	-4	2232.3	-25	18	-240.9
<b>Total Variable cost</b>	<b>5,424</b>	<b>4,571</b>	<b>18.7</b>	<b>5,271</b>	<b>2.9</b>	<b>10,696</b>	<b>9,310</b>	<b>14.9</b>	<b>22,980</b>	<b>19,433</b>	<b>18.3</b>
INR/tonne	2,521	2,247	12.2	2,452	2.8	2,486	2,265	9.8	2,549	2,328	9.5
Staff cost	793	700	13.3	749	5.9	1,543	1,407	9.7	3,068	2,777	10.4
INR/tonne	369	344	7.1	349	5.8	359	342	4.8	340	333	2.3
Other expenditure	1,508	1,360	10.9	1,363	10.6	2,871	2,593	10.7	6,213	5,296	17.3
INR/tonne	701	669	4.8	634	10.5	667	631	5.8	689	634	8.6
<b>Total fixed cost</b>	<b>2,301</b>	<b>2,060</b>	<b>11.7</b>	<b>2,112</b>	<b>8.9</b>	<b>4,414</b>	<b>4,000</b>	<b>10.3</b>	<b>9,280</b>	<b>8,073</b>	<b>15.0</b>
INR/tonne	1,069	1,013	5.6	983	8.8	1,026	973	5.4	1,029	967	6.4
<b>Tot expenditure excluding excise</b>	<b>7,726</b>	<b>6,631</b>	<b>16.5</b>	<b>7,384</b>	<b>4.6</b>	<b>15,110</b>	<b>13,310</b>	<b>13.5</b>	<b>32,260</b>	<b>27,506</b>	<b>17.3</b>
Cost INR/tonne	3,590	3,260	10.1	3,434	4.5	3,512	3,238	8.5	3,578	3,295	8.6

Source: Company, JM Financial

## Exhibit 6. Valuation charts



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 INR36bn (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 12.9/9.9x EV/EBITDA based on FY19E/20E. We value the stock at 10x EV/EBITDA to arrive at TP of INR 625. We maintain our HOLD rating on the stock.

## Exhibit 7. Volume, 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 (INR/tonne)	4,816	4,557	4,693	4,928	5,150
YoY Growth (%)	6.0	-5.4	3.0	5.0	4.5
Power & Fuel (INR/tonne)	725	616	800	824	849
Freight (INR/tonne)	925	877	964	993	1,023
Raw Material (INR/tonne)	749	750	788	827	885
Cement EBIDTA (INR/tonne)	1,385	1,297	1,178	1,237	1,329

Source: Company, JM Financial

## Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Sales	35,592	39,469	43,814	50,450	62,479	
Sales Growth	-1.3%	10.9%	11.0%	15.1%	23.8%	
Other Operating Income	226	204	876	1,009	937	
<b>Total Revenue</b>	<b>35,818</b>	<b>39,673</b>	<b>44,691</b>	<b>51,459</b>	<b>63,416</b>	
Cost of Goods Sold/Op. Exp	5,543	6,466	6,934	8,580	10,775	
Personnel Cost	2,594	2,785	3,068	3,479	4,262	
Other Expenses	16,916	18,528	22,259	25,242	30,831	
<b>EBITDA</b>	<b>10,765</b>	<b>11,894</b>	<b>12,430</b>	<b>14,158</b>	<b>17,548</b>	
EBITDA Margin	30.1%	30.0%	27.8%	27.5%	27.7%	
EBITDA Growth	49.5%	10.5%	4.5%	13.9%	23.9%	
Depn. & Amort.	3,053	2,669	2,887	3,310	3,440	
EBIT	7,712	9,226	9,543	10,848	14,109	
Other Income	755	392	398	452	547	
Finance Cost	1,838	1,049	693	700	762	
PBT before Excep. & Forex	6,629	8,569	9,248	10,600	13,894	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	6,629	8,569	9,248	10,600	13,894	
Taxes	1,317	2,027	2,219	2,756	3,612	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	142	110	5	5	5	
Reported Net Profit	5,452	6,627	7,023	7,839	10,277	
<b>Adjusted Net Profit</b>	<b>5,452</b>	<b>6,627</b>	<b>7,023</b>	<b>7,839</b>	<b>10,277</b>	
Net Margin	15.2%	16.7%	15.7%	15.2%	16.2%	
Diluted Share Cap. (mn)	238.1	238.1	235.6	235.6	235.6	
<b>Diluted EPS (INR)</b>	<b>22.9</b>	<b>27.8</b>	<b>29.8</b>	<b>33.3</b>	<b>43.6</b>	
Diluted EPS Growth	121.5%	21.6%	7.1%	11.6%	31.1%	
Total Dividend + Tax	858	860	1,266	1,413	1,853	
Dividend Per Share (INR)	3.0	3.0	4.5	5.0	6.5	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Shareholders' Fund	31,331	37,955	42,035	48,460	56,884	
Share Capital	238	238	236	236	236	
Reserves & Surplus	31,093	37,717	41,799	48,225	56,649	
Preference Share Capital	0	0	0	0	0	
Minority Interest	7	19	24	29	34	
Total Loans	21,404	14,372	14,372	14,372	9,372	
Def. Tax Liab. / Assets (-)	7,084	7,215	7,215	7,215	7,215	
<b>Total - Equity &amp; Liab.</b>	<b>59,826</b>	<b>59,561</b>	<b>63,646</b>	<b>70,076</b>	<b>73,505</b>	
Net Fixed Assets	51,731	51,851	55,223	60,604	59,664	
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	31,588	34,898	38,338	
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	16,383	18,673	26,084	
Inventories	5,502	5,766	6,602	7,602	9,415	
Sundry Debtors	4,721	5,549	6,160	7,093	8,784	
Cash & Bank Balances	911	1,198	535	425	3,486	
Loans & Advances	345	422	469	540	668	
Other Current Assets	2,966	2,357	2,617	3,013	3,731	
Current Liab. & Prov.	9,617	11,145	11,522	12,763	15,805	
Current Liabilities	2,148	2,562	2,641	3,041	3,766	
Provisions & Others	7,469	8,582	8,881	9,722	12,040	
Net Current Assets	4,828	4,147	4,861	5,910	10,279	
<b>Total - Assets</b>	<b>59,826</b>	<b>59,561</b>	<b>63,646</b>	<b>70,076</b>	<b>73,505</b>	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Profit before Tax	6,629	8,569	9,248	10,600	13,894	
Depn. & Amort.	3,253	2,858	2,887	3,310	3,440	
Net Interest Exp. / Inc. (-)	1,838	1,049	693	700	762	
Inc (-) / Dec in WCap.	919	816	-1,376	-1,160	-1,308	
Others	-267	-245	0	0	0	
Taxes Paid	-1,484	-1,874	-2,219	-2,756	-3,612	
<b>Operating Cash Flow</b>	<b>10,888</b>	<b>11,174</b>	<b>9,232</b>	<b>10,695</b>	<b>13,176</b>	
Capex	-2,980	-3,048	-6,258	-8,692	-2,500	
Free Cash Flow	7,908	8,126	2,974	2,003	10,676	
Inc (-) / Dec in Investments	198	-30	0	0	0	
Others	176	276	0	0	0	
<b>Investing Cash Flow</b>	<b>-2,606</b>	<b>-2,802</b>	<b>-6,258</b>	<b>-8,692</b>	<b>-2,500</b>	
Inc / Dec (-) in Capital	0	0	-1,677	0	0	
Dividend + Tax thereon	-1,291	0	-1,266	-1,413	-1,853	
Inc / Dec (-) in Loans	-6,566	-5,545	0	0	-5,000	
Others	-143	-2,541	-693	-700	-762	
<b>Financing Cash Flow</b>	<b>-8,000</b>	<b>-8,086</b>	<b>-3,636</b>	<b>-2,113</b>	<b>-7,615</b>	
<b>Inc / Dec (-) in Cash</b>	<b>282</b>	<b>286</b>	<b>-662</b>	<b>-110</b>	<b>3,061</b>	
Opening Cash Balance	629	911	1,198	535	425	
Closing Cash Balance	911	1,198	535	425	3,486	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Margin	15.2%	16.7%	15.7%	15.2%	16.2%	
Asset Turnover (x)	0.6	0.7	0.7	0.8	0.9	
Leverage Factor (x)	2.1	1.7	1.5	1.5	1.4	
RoE	18.9%	19.1%	17.6%	17.3%	19.5%	

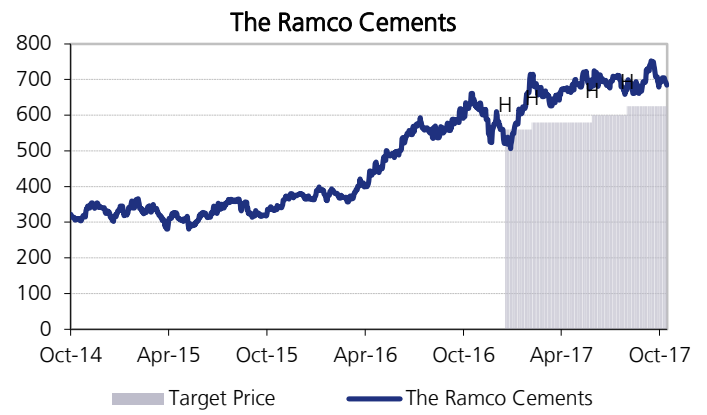
Key Ratios						
Y/E March	FY16A	FY17A	FY18E	FY19E	FY20E	
BV/Share (INR)	131.6	159.4	178.4	205.7	241.5	
ROIC	12.6%	14.7%	14.5%	14.4%	17.7%	
ROE	18.9%	19.1%	17.6%	17.3%	19.5%	
Net Debt/Equity (x)	0.7	0.3	0.3	0.3	0.1	
P/E (x)	31.5	25.9	24.2	21.7	16.5	
P/B (x)	5.5	4.5	4.0	3.5	3.0	
EV/EBITDA (x)	17.7	15.4	14.8	13.0	10.0	
EV/Sales (x)	5.3	4.6	4.1	3.6	2.8	
Debtor days	48	51	50	50	51	
Inventory days	56	53	54	54	54	
Creditor days	31	34	30	30	30	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	FY18E EPS (INR)	% Chg.	FY19E EPS (INR)	% Chg.	Target Price	% Chg.
19-Dec-16	28.6		33.4		560	
7-Feb-17	30.6	7.0	34.2	2.4	580	3.6
30-May-17	31.9	4.2	34.8	1.8	600	3.4
3-Aug-17	31.1	-2.5	34.7	-0.3	625	4.2

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

Registered Office: 7th Floor, Energy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: [jmfinancial.research@jmfl.com](mailto:jmfinancial.research@jmfl.com) | [www.jmfl.com](http://www.jmfl.com)Compliance Officer: Mr. Sunny Shah | Tel: +91 22 6630 3383 | Email: [sunny.shah@jmfl.com](mailto:sunny.shah@jmfl.com)

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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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