

August 06, 2018

# The Ramco Cements

## Q1FY19 Result Update

### Strong volume growth with weak pricing

Ramco cements boasted of a industry-highest volume growth of 22% yoy (to 2.61mn tons) this quarter. Pressure on cement prices resulted in realization dropping by 1.5% yoy and 1% qoq to INR 4537/ton (INR 227/bag). Wind power generated 67.3 mn units as against 93.5 mn units in Q1FY18 due to delay in onset of wind season and intermittent grid stoppages. The company recorded a revenue growth of 19% yoy (from INR 1029cr) and a decline of 4% qoq (INR 1270cr) to INR 1220cr. Further volume growth is expected post the commissioning of grinding capacity of 3.1mn tons in the next 12-15 months.

### High cost inflation; margins under pressure

Operating expenditure grew 8% yoy, due to an increase in power and fuel cost (25.4% yoy) and freight cost (15.4% yoy). This was due to an increase in petcoke and coal prices as well as a rise in diesel prices and the unavailability of rakes in the Eastern region. EBITDA Margin for the quarter stood at 20.5% down from 28.2% in Q1FY18 and up from 22.6% in Q4FY18.

### EBITDA/Ton at 14-quarter low

EBITDA/Ton declined 29% yoy and 16% qoq to INR 828/ton primarily due to subdued pricing and rising operating costs. Although employee costs, raw material cost as well as other expenditure declined yoy, higher freight and power and fuel costs impacted margins.

### Valuations

Ramco remains one of the most efficient cement companies in the Southern region. Its focus on growth and cost optimization continues, and we expect continued volume growth momentum post capacity expansion. However, profitability and in turn stock price recovery, is contingent on the pricing environment in its key markets (South and East). We expect revenue and EBITDA to grow at a CAGR of 13.9% and 9.5% between FY18-20E and maintain our BUY rating on the stock with a target price of INR 820/share (i.e valuing at an average of 15x EV/EBITDA, FY20E EBITDA of INR 1332cr and \$160 EV/Ton).

(INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Revenue	3582	3967	4424	4897	5742
<b>Growth%</b>	<b>-2%</b>	<b>11%</b>	<b>12%</b>	<b>11%</b>	<b>17%</b>
EBITDA	1076	1208	1112	1213	1332
<b>Growth%</b>	<b>50%</b>	<b>12%</b>	<b>-8%</b>	<b>9%</b>	<b>10%</b>
Adjusted PAT	545	664	565	615	697
<b>Growth%</b>	<b>122%</b>	<b>22%</b>	<b>-15%</b>	<b>9%</b>	<b>13%</b>
EPS (INR)	22.9	28.8	24.7	26.1	29.6
Sales Volume (MT)	7.2	8.3	9.3	10.1	11.8
EV/EBITDA	14.2	12.4	16.2	14.1	12.6
EV/Ton	183	179	163	155	128
P/E (x)	17.5	19.8	28.9	26.0	23.0

Source: Company, NSPL Research

\* Read last page for disclaimer &amp; rating rationale

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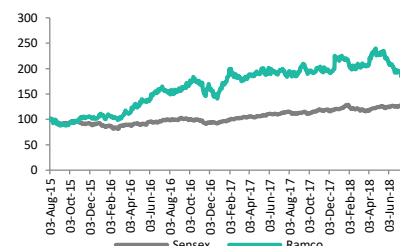
## STRONG BUY\*

Downside Scenario	Current Price	Price Target	Upside Scenario
	679	820	
		21% ▲	

Stock Details	
Industry	Cement
Sensex	37556
Nifty	11361
Bloomberg Code	TRCL:IN
Eq. Cap. (INR. Cr.)	23.6
Face Value (INR.)	1
52-w H/L	620/879
Market Cap (INR. Cr.)	16287

	Valuation Data		
	FY18	FY19E	FY20E
OPM	25.1%	24.8%	23.2%
NPM	12.8%	12.6%	12.1%
P/E (x)	28.9	26.0	23.0
EV/EBITDA (x)	16.2	14.1	12.6
EV/Ton (\$)	163	155	128

### The Ramco Cements Vs SENSEX



### Shareholding Pattern

	Jun'18	Mar'18	Jun'17
Promoters	42.75	42.75	42.67
FIIIs	12.73	13.12	14.53
DIIIs	20.89	20.12	18.48
Retail	20.24	20.39	20.92
Others	3.4	3.63	2.5



## Q1FY19 Result Analysis

(INR Crores)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
<b>Revenue</b>	<b>1220</b>	<b>1029</b>	<b>1270</b>	<b>18.6%</b>	<b>-3.9%</b>
COGS	136	118	168	15.5%	-19.0%
<b>Gross Profit</b>	<b>1050</b>	<b>872</b>	<b>1082</b>	<b>20.3%</b>	<b>-3.0%</b>
Employee Expenses	82	75	74	9.4%	11.1%
Power and Fuel	256	168	218	52.4%	17.8%
Freight and Forwarding	338	241	354	40.3%	-4.6%
Other Expenses	157	136	169	15.3%	-6.9%
<b>Total Expenses</b>	<b>970</b>	<b>738</b>	<b>983</b>	<b>31.3%</b>	<b>-1.3%</b>
<b>EBITDA</b>	<b>216</b>	<b>252</b>	<b>268</b>	<b>-14.2%</b>	<b>-19.3%</b>
Depreciation	73	72	75	2.0%	-2.6%
Other Income	5	5	4	-10.8%	68.8%
<b>EBIT</b>	<b>182</b>	<b>224</b>	<b>216</b>	<b>-18.7%</b>	<b>-15.8%</b>
Finance Cost	11	15	10	-26.0%	9.4%
<b>PBT</b>	<b>170</b>	<b>208</b>	<b>205</b>	<b>-18.2%</b>	<b>-17.0%</b>
Taxes	45	52	97	-13.5%	-53.1%
<b>Net Profit</b>	<b>125</b>	<b>156</b>	<b>109</b>	<b>-19.8%</b>	<b>15.1%</b>

Source: Company, NSPL Research

- The company's net sales grew 18.6% y-o-y (from INR 1029cr in Q1FY18) and declined 3.9% q-o-q (from INR 1270cr in Q4FY18) to INR 1220cr in Q1FY19.
- EBITDA for the company stood at INR 216cr down from INR 252cr (-14.2% Y-o-Y) and down from INR 268cr (-19.3% Q-o-Q) with EBITDA Margins at 21.1% as against 29.3% in Q1FY18 and 23% in Q4FY18. The decline in margins may be attributed to higher input prices, slightly lower realization and shutting down of WHRS plant due to upgradation of its capacity.
- EBITDA/Ton for the quarter stood at INR 828 down from INR 1173 (-29.4% Y-o-Y) in Q1FY18 and INR 980 (-15.6% Q-o-Q) in Q4FY18. Total cement volumes for the quarter including exports stood at 2.61mn tons up by a healthy 22% YoY (from 2.15mnt) and down by 4% QoQ (from 2.74mnt).
- Reported PAT stood at INR 125cr which was down by 19.8% Y-o-Y (from INR 156cr) and up by 15% Q-o-Q (from INR 109cr). PAT Margins stood at 10.5%, down from 15.7% in Q1FY18 and up from 8.7% in Q4FY18.
- Realization/Ton stood at INR 4537, down from INR 4607 (-1.5% YoY) in Q1FY18 and INR 4571 (-0.8% QoQ) in Q4FY18.

(INR/Ton)	Q1FY19	Q1FY18	Q4FY18	Y-o-Y	Q-o-Q
Realization	4537	4607	4571	-1.5%	-0.8%
RM Cost	522	550	616	-5.0%	-15.2%
Employee Cost	314	349	270	-10.0%	16.3%
Power and Fuel	980	782	795	25.4%	23.3%
Freight and Forwarding	1292	1120	1294	15.4%	-0.1%
Other Expenditure	601	634	617	-5.2%	-2.5%
Total Expenditure	3709	3434	3591	8.0%	3.3%
<b>EBITDA</b>	<b>828</b>	<b>1173</b>	<b>980</b>	<b>-29.4%</b>	<b>-15.6%</b>

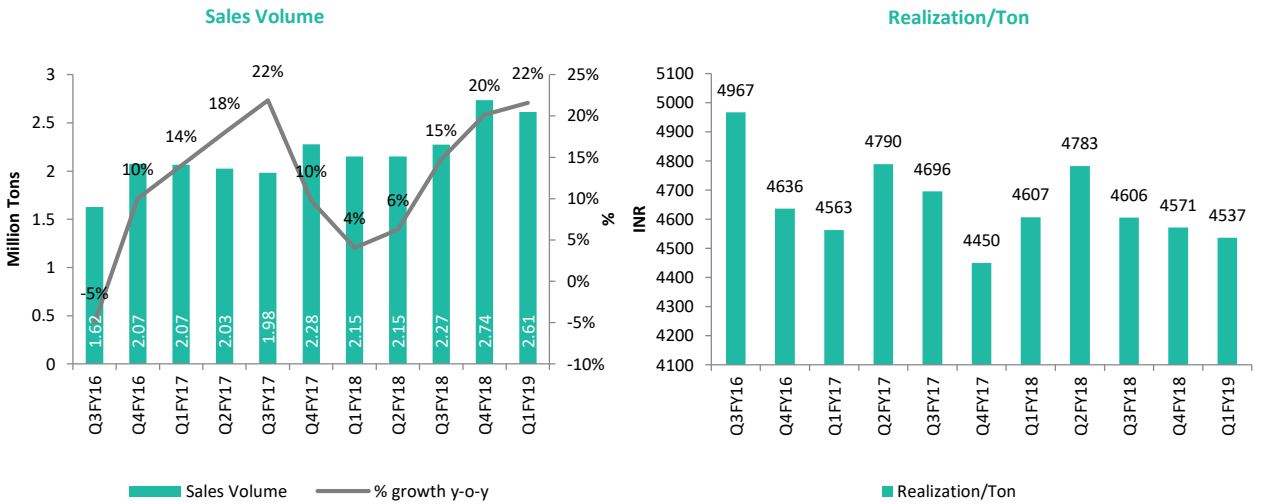
Source: Company, NSPL Research

## ANALYST

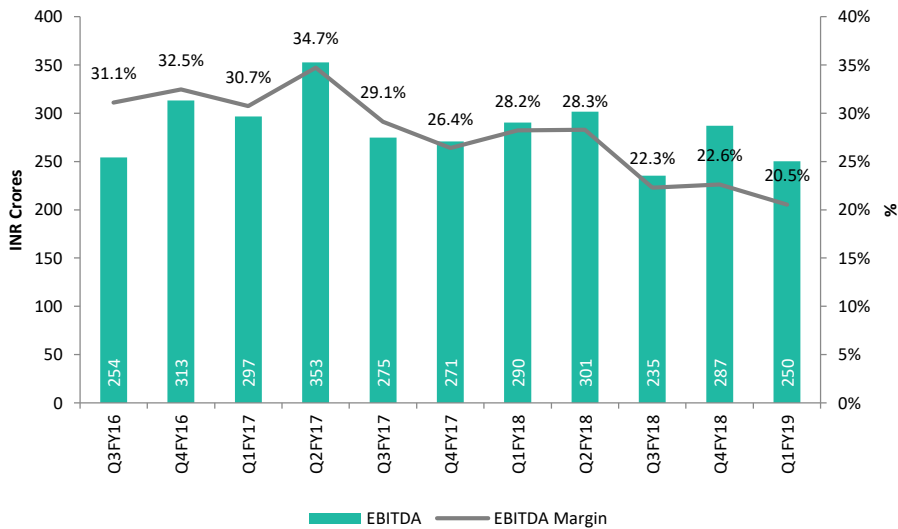
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## NALANDA SECURITIES PRIVATE LIMITED

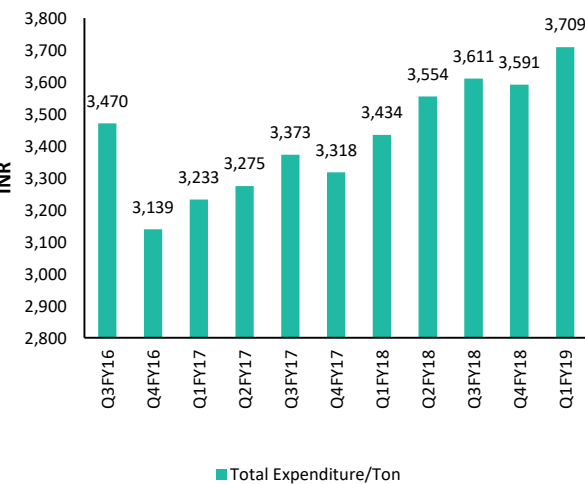
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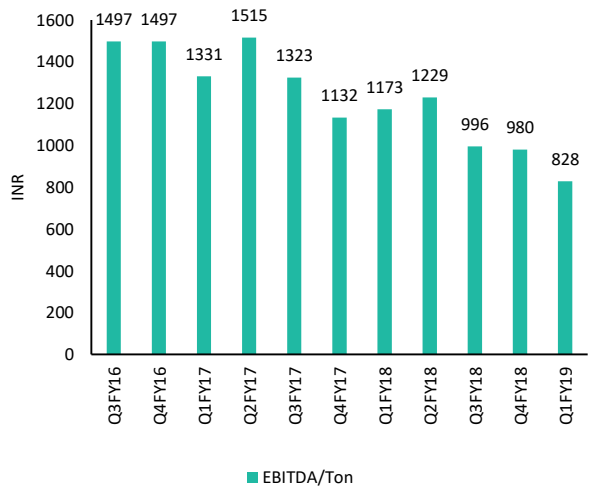
**Margin declined y-o-y due to higher input prices and lower realization**



**Increasing cost pressure due to rising pet-coke and diesel prices**



**EBITDA/Ton**



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Net sales	3582	3967	4424	4897	5742
COGS	589	670	751	842	1001
Employee Expenses	259	279	305	326	375
Power and fuel	527	516	729	890	1148
Transportation cost	672	738	928	995	1179
Other Expenses	458	556	599	630	706
<b>EBITDA</b>	<b>1076</b>	<b>1208</b>	<b>1112</b>	<b>1213</b>	<b>1332</b>
Other Income	75	40	33	30	30
D&A	305	286	294	300	314
<b>EBIT</b>	<b>847</b>	<b>962</b>	<b>851</b>	<b>943</b>	<b>1048</b>
Interest Expense	184	105	60	65	53
<b>PBT</b>	<b>663</b>	<b>857</b>	<b>791</b>	<b>879</b>	<b>995</b>
Tax	132	203	231	264	299
Effective tax rate	20%	24%	29%	30%	30%
<b>PAT</b>	<b>545</b>	<b>664</b>	<b>565</b>	<b>615</b>	<b>697</b>

Balance Sheet (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
Share Capital	23.8	23.8	23.6	23.6	23.6
Reserves & Surplus	3109	3772	4081	4626	5252
<b>Shareholder's Funds</b>	<b>3133</b>	<b>3795</b>	<b>4105</b>	<b>4649</b>	<b>5275</b>
Long-term borrowings	1,059	511	419	419	0
Deferred Tax Liability (Net)	708	722	753	753	753
Other long-term liabilities	8	11	13	13	13
Long term provisions	2	4	9	5	7
<b>Non-current liabilities</b>	<b>1,777</b>	<b>1,248</b>	<b>1,193</b>	<b>1,190</b>	<b>773</b>
Short-term borrowings	631	635	583	583	583
Trade payables	215	256	268	320	381
Other current liabilities	1,151	1,088	957	1,077	1,263
Short-term provisions	37	47	48	54	64
<b>Current liabilities</b>	<b>2,033</b>	<b>2,025</b>	<b>1,856</b>	<b>2,034</b>	<b>2,291</b>
<b>Total Equity and Liabilities</b>	<b>6,944</b>	<b>7,071</b>	<b>7,158</b>	<b>7,876</b>	<b>8,343</b>
Net Fixed Assets	5,305	5,331	5,497	5,584	5,668
Non-current investments	195	210	228	245	327
Long-term loans and advances	13	15	14	24	29
Other non-current assets	97	92	118	118	118
<b>Non-current Assets</b>	<b>5,610</b>	<b>5,649</b>	<b>5,858</b>	<b>5,971</b>	<b>6,142</b>
Inventories	550	577	561	978	1,201
Trade receivables	472	555	442	588	689
Cash and cash equivalents	91	120	120	129	70
Short-term loans and advances	21	27	31	34	40
Other current assets	200	143	146	176	201
<b>Current Assets</b>	<b>1,334</b>	<b>1,422</b>	<b>1,300</b>	<b>1,905</b>	<b>2,201</b>
<b>Total Assets</b>	<b>6,944</b>	<b>7,071</b>	<b>7,158</b>	<b>7,876</b>	<b>8,343</b>

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY16	FY17	FY18	FY19E	FY20E
PBT	663	857	791	879	995
Depreciation & Amortization	325	286	294	300	314
(Incr)/Decr in Working Capital	92	85	156	-433	-100
Direct taxes paid	-148	-191	-173	-264	-299
<b>Cash Flow from Operating</b>	<b>1,089</b>	<b>1,117</b>	<b>1,124</b>	<b>547</b>	<b>964</b>
(Incr)/ Decr in Gross PP&E	-299	-307	-496	-386	-399
<b>Cash Flow from Investing</b>	<b>-261</b>	<b>-280</b>	<b>-490</b>	<b>-403</b>	<b>-480</b>
(Decr)/Incr in Debt	-663	-702	-263	0	-419
Dividend Paid	-129		-85	-71	-71
Finance costs	-164	-110	-67	-65	-53
<b>Cash Flow from Financing</b>	<b>-950</b>	<b>-665</b>	<b>-793</b>	<b>-135</b>	<b>-542</b>
Incr/(Decr) in Balance Sheet Cash	-122	172	-159	9	-59
Cash at the Start of the Year	-63	-184	-12	-170	-162
Cash at the End of the Year	-184	-12	-170	-162	-221
Cash Credit	275	132	290	290	290
<b>Net cash</b>	<b>91</b>	<b>120</b>	<b>120</b>	<b>129</b>	<b>70</b>

RATIOS	FY16	FY17	FY18	FY19E	FY20E
<b>Particulars</b>					
EBITDA/Ton	1495.1	1456.7	1193.8	1206.1	1129.4
Sales Volume (mn tons)	7.2	8.3	9.3	10.1	11.8
<b>Growth (%)</b>					
Total Sales	-2.0%	10.8%	11.5%	10.7%	17.2%
EBITDA	49.5%	12.2%	-7.9%	9.1%	9.8%
PAT	121.5%	21.8%	-14.9%	8.9%	13.2%
<b>Profitability (%)</b>					
EBITDA Margin	30.1%	30.4%	25.1%	24.8%	23.2%
NPM	15.2%	16.7%	12.8%	12.6%	12.1%
RoE (%)	19.6%	17.5%	13.8%	13.2%	13.2%
RoCE (%)	15.3%	18.4%	15.8%	15.9%	17.0%
<b>Debt Ratios</b>					
Net Debt/EBITDA	1.5	1.1	1.1	1.0	0.6
Net Debt/Equity	0.5	0.3	0.3	0.3	0.2
Interest Coverage	4.6	9.2	14.2	14.6	19.8
<b>Per share data / Valuation</b>					
EPS (INR.)	22.9	28.8	24.7	26.1	29.6
BPS (INR.)	131.6	159.4	174.2	197.3	223.9
P/E (x)	17.5	19.8	28.9	26.0	23.0
EV/EBITDA (x)	14.2	12.4	16.2	14.1	12.6
EV/Ton (\$)	183	179	163	155	128

Source: Company, NSPL Research



The Ramco Cements				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
August 06, 2018	679	820	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO

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