

October 31, 2018

The Ramco Cements

Q2FY19 Result Update

Strong volume growth to maintain profitability

Ramco cements (TRCL) posted healthy results due to a high double-digit volume growth of 15% YoY (to 2.47mt) this quarter. Cement realization for the quarter improved sequentially by 1.9% to INR 4622/ton which was enough to offset the sequential rise in operating costs by 2.2% QoQ. Wind power generated 208.5 mn units as against 214.5 mn units in Q2FY18. The company recorded a revenue growth of 11% YoY (from INR 1029cr) and a decline of 3% qoq (INR 1186cr) to INR 1141cr. Further volume growth is expected post the commissioning of grinding capacity of 1.1mt in the next 6-8 months.

High cost inflation; margins under pressure

EBITDA/Ton declined 32% YoY and remained flat sequentially at INR 830/ton as higher realization helped in offsetting the current cost pressure faced by the company. Power and fuel as well as RM costs continued to inch up, with P&F cost/ton rising up by 19% YoY and RM cost/ton up by 11% YoY. As most of the volumes are transported by road, an increase in axle load norms helped the company reduce its freight cost/ton by 2.5% QoQ. EBITDA Margin for the quarter stood at 20.9% down from 28.3% in Q2FY18 and up from 20.5% in Q1FY19.

Capacity Expansion to provide the next leg of growth

With a capacity expansion of 4.5mt, (0.9mt GU in Odisha, 1.1mt GU in WB (expected post Q4FY19), 1.1mt in Vizag and 1.5mt clinker capacity in AP) the company is poised to reach a consolidated capacity of 20mt by FY22E. This requires a capex of ~INR 1930cr and will be funded mainly through internal accruals.

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 roll forward our estimates and maintain our BUY rating on the stock with a target price of INR 838/share (i.e valuing at an average of 13x EV/EBITDA, FY21E EBITDA of INR 1573cr and \$150 EV/Ton).

(INR Crores)	FY17	FY18	FY19	FY20E	FY21E
Revenue	3967	4424	4819	5505	6356
Growth%	11%	12%	9%	14%	15%
EBITDA	1208	1112	1179	1250	1573
Growth%	12%	-8%	6%	6%	26%
Adjusted PAT	664	565	579	634	840
Growth%	22%	-15%	3%	10%	32%
EPS (INR)	28.8	24.7	24.6	26.9	35.3
Sales Volume (MT)	8.3	8.7	9.9	11.3	11.7
EV/EBITDA	12.4	16.2	13.0	12.1	9.3
EV/Ton	179	149	128	105	103
P/E (x)	19.8	28.9	24.5	22.4	17.1

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

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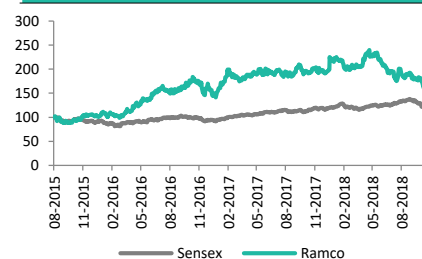
STRONG BUY*



Market Data	
Industry	Cement
Sensex	34442
Nifty	10387
Bloomberg Code	TRCL:IN
Eq. Cap. (INR Crores)	23.6
Face Value (INR)	1
52-w H/L	547/879
Market Cap (INR Crores)	14065

Valuation Data	FY18	FY19E	FY20E
OPM	25.1%	24.5%	22.7%
NPM	12.8%	12.0%	11.5%
P/E (x)	28.9	24.5	22.4
EV/EBITDA (x)	16.2	13.0	12.1
EV/Ton (\$)	149	128	105

The Ramco Cements Vs SENSEX



Shareholding Pattern

	Sep'18	Jun'18	Sep'17
Promoters	42.75	42.75	42.75
FIIIs	11.87	12.73	14.83
DIIIs	26.33	24.29	21.41
Retail	19.05	20.23	21.01
Total	100	100	100



Q2FY19 Result Analysis

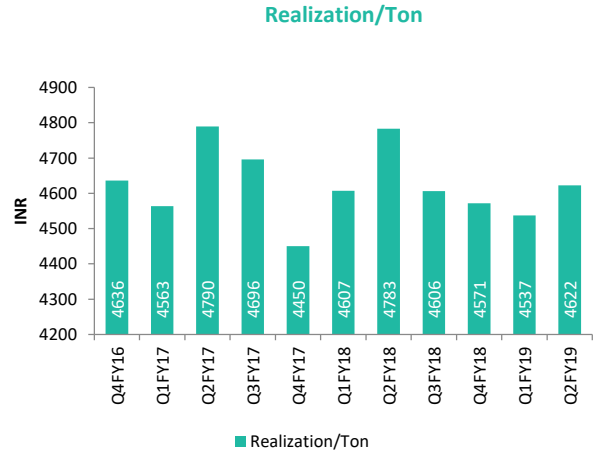
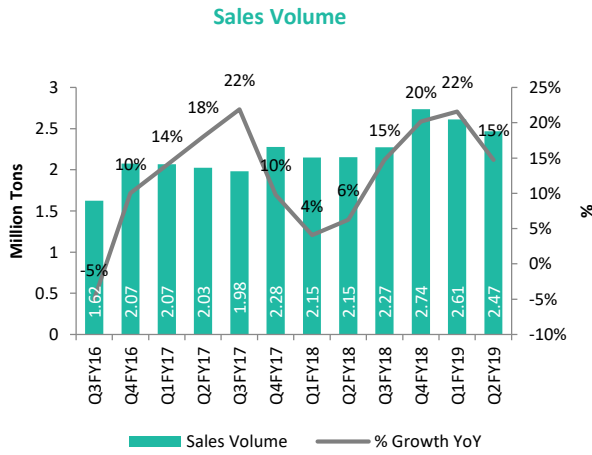
(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Revenue from operations	1141	1029	1186	10.9%	-3.8%
COGS	145	113	136	27.6%	6.1%
Gross Profit	1039	916	1050	13.4%	-1.0%
Employee Expenses	84	79	82	5.8%	2.4%
Power and Fuel	236	173	256	36.8%	-7.9%
Freight and Forwarding	311	256	338	21.2%	-8.0%
Other Expenses	161	143	157	12.3%	2.3%
Total Expenses	936	765	970	22.4%	-3.4%
EBITDA	247	302	250	-18.0%	-1.3%
Depreciation	73	72	73	1.4%	-0.9%
Other Income	6	7	5	-18.3%	20.1%
EBIT	180	237	182	-23.9%	-0.8%
Finance Cost	13	17	11	-24.0%	14.7%
PBT	167	220	170	-23.9%	-1.9%
Taxes	53	51	45	2.9%	16.2%
Net Profit	114	169	125	-32.1%	-8.4%

Source: Company, NSPL Research

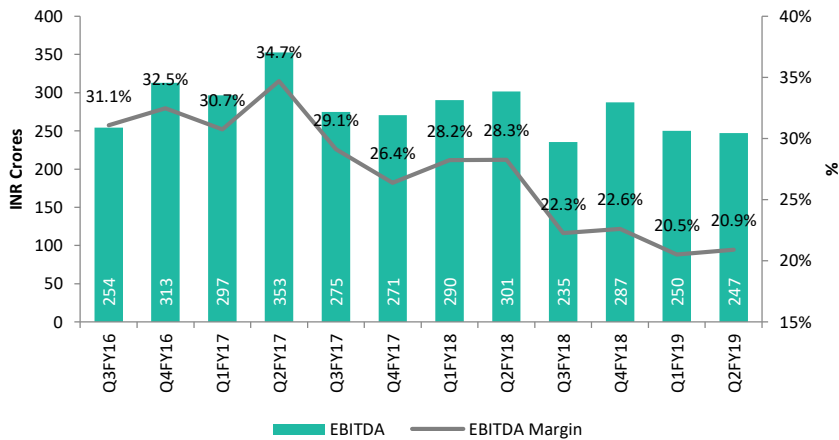
- The company's revenue from core operations grew 11% y-o-y (from INR 1029cr in Q2FY18) but declined by 3.8% q-o-q (from INR 1186cr in Q4FY18) to INR 1141cr in Q1FY19.
- EBITDA for the company stood at INR 247cr down from INR 302cr (-18% YoY) and INR 250cr (-1.3% QoQ) with EBITDA Margins at 20.9% as against 28.3% in Q2FY18 and 20.5% in Q1FY19. The fall in margins was primarily due to an increase in fuel and diesel costs.
- EBITDA/Ton for the quarter stood at INR 830 down from INR 1229 (-32.5% YoY) and up from INR 828(+0.2% QoQ). Total cement volumes for the quarter stood at 2.47mt up from 2.15mt in Q2FY18 (14.7% YoY) and 2.61mt in Q1FY19.
- Reported PAT stood at INR 114cr which was down from INR 168.5cr (-32% YoY) and INR 125cr (-8.4% QoQ). PAT Margins stood at 9.7%, down from 15.8% in Q2FY18 and 10.2% in Q1FY19.
- Realization/ Ton has declined 3.4% YoY (from INR 4783) and increased 1.9% QoQ (from INR 4537) to INR 4622 in the quarter.

(INR/Ton)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Realization	4622	4783	4537	-3.4%	1.9%
RM Cost	586	527	522	11.2%	12.3%
Employee Cost	340	369	314	-7.8%	8.4%
Power and Fuel	956	802	980	19.2%	-2.5%
Freight and Forwarding	1259	1192	1292	5.7%	-2.6%
Other Expenditure	651	665	601	-2.1%	8.4%
Total Expenditure	3793	3554	3709	6.7%	2.2%
EBITDA	830	1229	828	-32.5%	0.2%

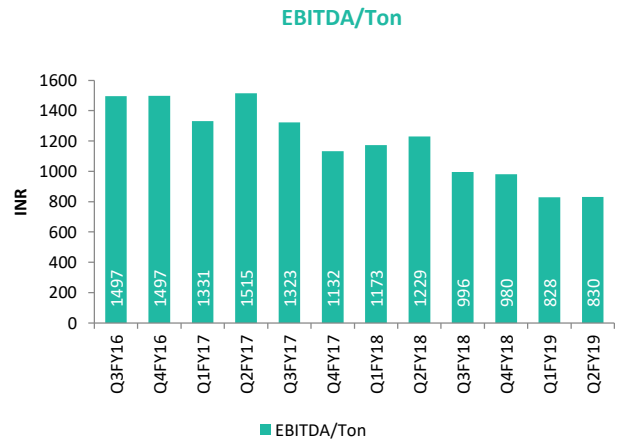
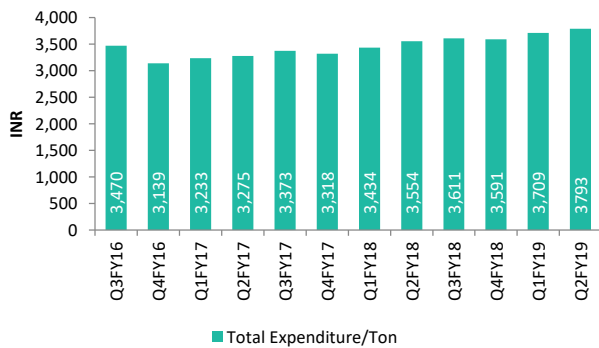
Source: Company, NSPL Research



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



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



Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY17	FY18	FY19	FY20E	FY21E
Net sales	3967	4424	4819	5505	6356
COGS	670	751	828	993	1079
Employee Expenses	279	305	326	375	431
Power and fuel	516	729	876	1051	1196
Transportation cost	738	928	980	1130	1286
Other Expenses	556	599	630	706	791
EBITDA	1208	1112	1179	1250	1573
Other Income	40	33	30	30	36
D&A	286	294	300	319	339
EBIT	962	851	909	960	1270
Interest Expense	105	60	91	64	83
PBT	857	791	818	896	1187
Tax	203	231	239	262	347
Effective tax rate	23.7%	29.2%	29.2%	29.2%	29.2%
PAT	664	565	579	634	840

Balance Sheet (INR Crores)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	24	24	24	24	24
Reserves & Surplus	3772	4081	4590	5154	5923
Shareholder's Funds	3795	4105	4614	5177	5946
Minority interest	2	3	3	3	3
Long-term borrowings	511	419	419	338	338
Deferred Tax Liability (Net)	722	753	753	753	753
Other long-term liabilities	11	13	13	13	13
Long term provisions	4	9	5	7	9
Non-current liabilities	1248	1193	1189	1111	1113
Short-term borrowings	635	583	583	583	583
Trade payables	256	268	315	377	402
Other current liabilities	1088	957	1060	1211	1391
Short-term provisions	47	48	53	62	70
Current liabilities	2025	1856	2010	2233	2445
Total Equity and Liabilities	7071	7158	7817	8524	9508

Net Fixed Assets	5331	5497	5584	5813	6024
Non-current investments	210	228	241	176	127
Long-term loans and advances	15	14	24	28	28
Other non-current assets	92	118	118	118	118
Non-current Assets	5649	5858	5967	6134	6297
Inventories	577	561	962	1191	1325
Trade receivables	555	442	578	661	890
Cash and cash equivalents	120	120	102	307	730
Short-term loans and advances	27	31	34	39	45
Other current assets	143	146	173	193	220
Current Assets	1422	1300	1850	2390	3210
Total Assets	7071	7158	7817	8524	9508

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY17	FY18	FY19	FY20E	FY21E
PBT	857	791	818	896	1187
Depreciation & Amortization	286	294	300	319	339
(Incr)/Decr in Working Capital	85	156	-427	-114	-183
Direct taxes paid	-191	-173	-239	-262	-347
Cash Flow from Operating	1117	1124	543	904	1043
(Incr)/ Decr in Gross PP&E	-307	-496	-386	-549	-550
Cash Flow from Investing	-280	-490	-399	-483	-467
(Decr)/Incr in Debt	-702	-263	0	-81	0
Dividend Paid		-85	-71	-71	-71
Finance costs	-110	-67	-91	-64	-83
Cash Flow from Financing	-665	-793	-161	-216	-152
Incr/(Decr) in Balance Sheet Cash	172	-159	-18	205	423
Cash at the Start of the Year	-184	-12	-170	-188	16
Cash at the End of the Year	-12	-170	-188	16	440
Cash Credit	132	290	290	290	290
Net cash	120	120	102	307	730

RATIOS	FY17	FY18	FY19	FY20E	FY21E
Particulars					
EBITDA/Ton	1457	1194	1191	1105	1344
Sales Volume (mn tons)	8.3	9.3	9.9	11.3	11.7
Growth (%)					
Total Sales	10.8%	11.5%	8.9%	14.2%	15.5%
EBITDA	12.2%	-7.9%	6.0%	6.0%	25.9%
PAT	21.8%	-14.9%	2.5%	9.5%	32.5%
Profitability (%)					
EBITDA Margin	30.4%	25.1%	24.5%	22.7%	24.7%
NPM	16.7%	12.8%	12.0%	11.5%	13.2%
RoE (%)	17.5%	13.8%	12.6%	12.3%	29.6%
RoCE (%)	18.4%	15.8%	15.4%	15.0%	21.0%
Debt Ratios					
Net Debt/EBITDA	1.1	1.1	1.0	0.7	0.3
Net Debt/Equity	0.3	0.3	0.3	0.2	0.1
Interest Coverage	9.2	14.2	10.0	14.9	15.3
Per share data / Valuation					
EPS (INR.)	28.8	24.7	24.6	26.9	35.3
BPS (INR.)	159.4	174.2	195.8	219.7	252.4
P/E (x)	19.8	28.9	24.5	22.4	17.1
EV/EBITDA (x)	12.4	16.2	13.0	12.1	9.3
EV/Ton (\$)	179	149	128	105	103

Source: Company, NSPL Research

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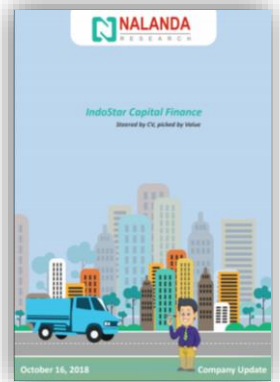
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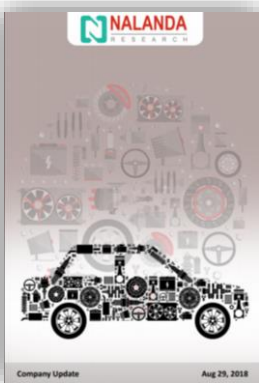
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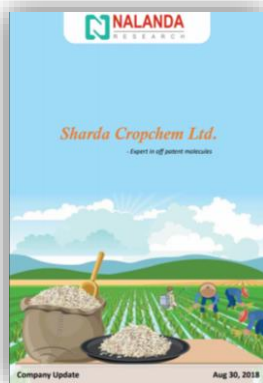
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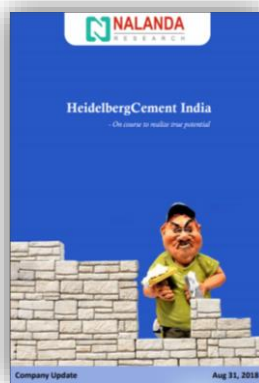
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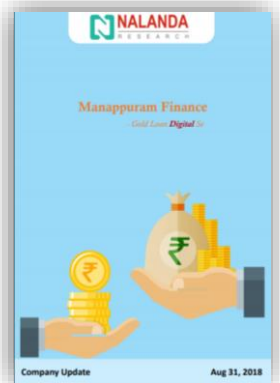
Minda Industries



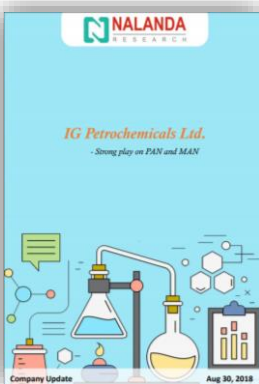
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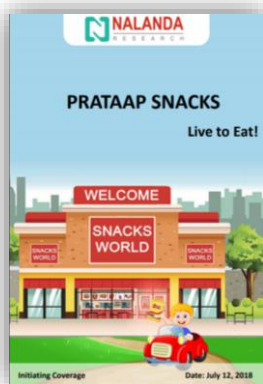
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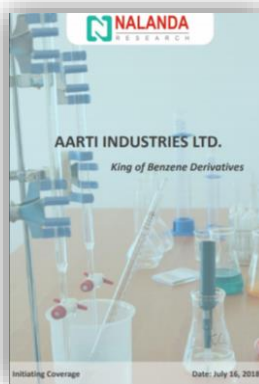
Manappuram Finance



IG Petrochemicals



Prataap Snacks



Aarti Industries



Shriram Transport



The Ramco Cements Limited				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 31, 2018	599	838	Strong Buy	Buy	5% - 15%
August 06, 2018	679	820	Strong Buy	Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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