

The Ramco Cements (TRCL IN)

Rating: HOLD | CMP: Rs574 | TP: Rs600

January 29, 2019

Q3FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	600		660	
Sales (Rs. m)	57,172	66,036	57,378	66,274
% Chng.			(0.4)	(0.4)
EBITDA (Rs. m)	10,943	12,595	11,292	12,978
% Chng.			(3.1)	(3.0)
EPS (Rs.)	25.8	28.3	26.8	30.0
% Chng.			(3.6)	(5.7)

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	43,181	49,834	57,172	66,036
EBITDA (Rs. m)	10,113	9,365	10,943	12,595
Margin (%)	23.4	18.8	19.1	19.1
PAT (Rs. m)	5,557	5,122	6,076	6,675
EPS (Rs.)	23.6	21.7	25.8	28.3
Gr. (%)	(13.5)	(7.8)	18.6	9.9
DPS (Rs.)	1.0	1.0	1.0	1.0
Yield (%)	0.2	0.2	0.2	0.2
RoE (%)	14.3	12.0	12.8	12.6
RoCE (%)	13.9	11.6	12.2	12.8
EV/Sales (x)	3.4	3.0	2.7	2.3
EV/EBITDA (x)	14.3	15.9	14.0	12.0
PE (x)	24.3	26.4	22.2	20.2
P/BV (x)	3.3	3.0	2.7	2.4

Key Data

TRCE.BO | TRCL IN

52-W High / Low	Rs.879 / Rs.546
Sensex / Nifty	35,593 / 10,652
Market Cap	Rs.135bn / \$ 1,900m
Shares Outstanding	236m
3M Avg. Daily Value	Rs.358.46m

Shareholding Pattern (%)

Promoter's	42.75
Foreign	11.37
Domestic Institution	23.57
Public & Others	22.32
Promoter Pledge (Rs bn)	1.23

Stock Performance (%)

	1M	6M	12M
Absolute	(10.1)	(20.6)	(26.6)
Relative	(8.9)	(16.7)	(25.2)

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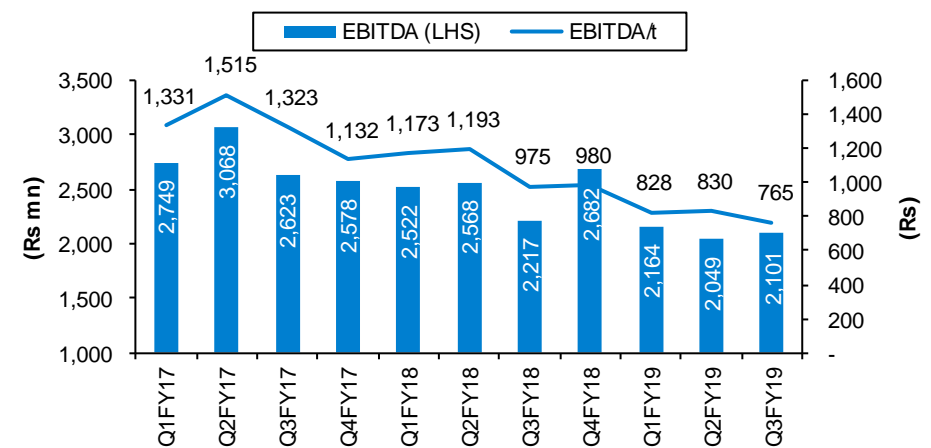
Earnings in line; Weak outlook drives earnings cut

The Ramco Cements (TRCL) reported Q3FY19 earnings in line with our expectation. Benefit of better than expected volume growth diluted by sharp cut in realisations.

Admittedly, cement prices have bottomed-out given the wafer thin margins. We do expect gradual improvement in prices in the current quarter. However, continuous capacity addition in the region, high aspiration of players to increase market share in rising demand environment and poor mix of demand inclined towards highly competitive and low margin Non-trade segment would keep prices under pressure for prolonged period. Led by weaker outlook on prices and rising share of volumes from low margin regions, we cut our earnings estimates by 3%/4% for FY20e/FY21e. Despite steep fall in the stock price, valuations remain stretched. Hence, we maintain Hold with a TP of Rs605 (earlier Rs660), factoring in cut in estimates and contraction in EV/EBITDA multiple to 12.5x (against 13x earlier) FY21E

- Volumes growth at the cost of depressed prices:** Cement volumes grew 21% YoY at 2.75mn (PLe:2.64mn) tonnes (t) on the back of strong demand in Telangana, AP and Eastern states at low prices. Impacted by intense competition, Realisations (net of freight) fell 4%/Rs150/t QoQ (46.5%/Rs235/t QoQ) to Rs3,377/t below our estimate of Rs3,458/t. On the back of higher scale and lower RM costs, cost (net of freight) came below our estimates at Rs2,613 (PLe:Rs2,663), down 1% YoY. Marred by weak realisations, EBITDA/t came below our estimate at Rs765 (PLe:Rs795), down 22% YoY. EBITDA fell 5% YoY to Rs2.1bn (PLe:Rs2.1bn). Adj. PAT fell 9% YoY to Rs1.0bn (PLe:Rs1.0bn).

Exhibit 1: Weak margins led the fall in EBITDA



Source: Company, PL

Exhibit 2: Q3FY19 Result Overview

Y/e March (Rs mn)	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	12,065	10,475	15.2	11,413	35,337	30,674	15.2
Raw Material	2,002	2,058	(2.7)	1,854	5,664	5,317	6.5
<i>% of Net Sales</i>	<i>16.6</i>	<i>19.6</i>		<i>16.2</i>	<i>16.0</i>	<i>17.3</i>	
Staff Costs	813	759	7.0	839	2,472	2,302	7.4
<i>% of Net Sales</i>	<i>6.7</i>	<i>7.2</i>		<i>7.4</i>	<i>7.0</i>	<i>7.5</i>	
Power & Fuel	2,713	1,708	58.8	2,360	7,636	5,114	49.3
<i>% of Net Sales</i>	<i>22.5</i>	<i>16.3</i>		<i>20.7</i>	<i>21.6</i>	<i>16.7</i>	
Freight and selling expenses	2,788	2,262	23.2	2,703	8,425	6,369	32.3
<i>% of Net Sales</i>	<i>23.1</i>	<i>21.6</i>		<i>23.7</i>	<i>23.8</i>	<i>20.8</i>	
Other Expenses	1,649	1,471	12.1	1,608	4,828	4,265	13.2
<i>% of Net Sales</i>	<i>13.7</i>	<i>14.0</i>		<i>14.1</i>	<i>13.7</i>	<i>13.9</i>	
Total Expenditure	9,965	8,258	20.7	9,364	29,024	23,367	24.2
EBITDA	2,101	2,217	(5.3)	2,049	6,313	7,307	(13.6)
<i>Margin (%)</i>	<i>17.4</i>	<i>21.2</i>		<i>18.0</i>	<i>17.9</i>	<i>23.8</i>	
Depreciation	756	730	3.6	728	2,218	2,168	2.3
Other income	105	140	(25.1)	482	975	1,019	(4.3)
EBIT	1,450	1,628	(10.9)	1,803	5,070	6,157	(17.7)
Interest	135	160	(15.9)	131	380	488	(22.0)
PBT	1,315	1,467	(10.4)	1,671	4,689	5,670	(17.3)
Extraordinary income/(expense)	-	47		-	-	124	
PBT (After EO)	1,315	1,515	(13.2)	1,671	4,689	5,794	(19.1)
Tax	304	364	(16.5)	464	1,284	1,323	(2.9)
<i>% PBT</i>	<i>23.1</i>	<i>24.1</i>		<i>27.7</i>	<i>27.4</i>	<i>22.8</i>	
Reported PAT	1,011	1,150	(12.1)	1,208	3,405	4,471	(23.8)
Adjusted PAT	1,011	1,114	(9.3)	1,145	3,405	4,299	(20.8)

Source: Company, PL

Exhibit 3: Key Operating Metrics

Y/e March (Rs mn)	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Volume (mn te)-Cement	2.75	2.27	20.8	2.47	7.83	6.58	19.1
Cement Realisations (Rs/te)	4,392	4,606	(4.7)	4,622	4,513	4,665	(3.2)
Cement EBITDA/ te (Rs/te)	765	975	(21.6)	830	806	1,111	(27.4)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	43,181	49,834	57,172	66,036
YoY gr. (%)	12.0	15.4	14.7	15.5
Cost of Goods Sold	7,206	8,321	9,747	11,458
Gross Profit	35,976	41,512	47,424	54,578
Margin (%)	83.3	83.3	83.0	82.6
Employee Cost	3,040	3,268	3,562	3,847
Other Expenses	6,252	6,879	7,905	9,139
EBITDA	10,113	9,365	10,943	12,595
YoY gr. (%)	(8.2)	(7.4)	16.9	15.1
Margin (%)	23.4	18.8	19.1	19.1
Depreciation and Amortization	2,922	3,010	3,235	3,716
EBIT	7,191	6,354	7,708	8,879
Margin (%)	16.7	12.8	13.5	13.4
Net Interest	592	605	847	1,032
Other Income	1,249	1,365	1,578	1,424
Profit Before Tax	7,847	7,114	8,439	9,271
Margin (%)	18.2	14.3	14.8	14.0
Total Tax	2,363	1,992	2,363	2,596
Effective tax rate (%)	30.1	28.0	28.0	28.0
Profit after tax	5,484	5,122	6,076	6,675
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,557	5,122	6,076	6,675
YoY gr. (%)	(14.4)	(7.8)	18.6	9.9
Margin (%)	12.9	10.3	10.6	10.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,484	5,122	6,076	6,675
YoY gr. (%)	(15.5)	(6.6)	18.6	9.9
Margin (%)	12.7	10.3	10.6	10.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,484	5,122	6,076	6,675
Equity Shares O/s (m)	236	236	236	236
EPS (Rs)	23.6	21.7	25.8	28.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	84,281	85,581	104,181	105,481
Tangibles	84,281	85,581	104,181	105,481
Intangibles	-	-	-	-
Acc: Dep / Amortization	31,300	34,310	37,545	41,261
Tangibles	31,300	34,310	37,545	41,261
Intangibles	-	-	-	-
Net fixed assets	52,981	51,271	66,636	64,220
Tangibles	52,981	51,271	66,636	64,220
Intangibles	-	-	-	-
Capital Work In Progress	2,179	12,241	6,891	12,891
Goodwill	-	-	-	-
Non-Current Investments	2,168	2,203	2,238	2,273
Net Deferred tax assets	(7,597)	(7,810)	(8,232)	(8,696)
Other Non-Current Assets	594	594	594	594
Current Assets				
Investments	-	-	-	-
Inventories	5,599	6,827	7,832	9,046
Trade receivables	4,423	5,325	6,109	7,056
Cash & Bank Balance	1,194	(312)	(921)	(894)
Other Current Assets	878	819	779	752
Total Assets	70,904	79,876	91,274	97,138
Equity				
Equity Share Capital	236	236	236	236
Other Equity	40,186	44,457	49,681	55,505
Total Networkth	40,422	44,693	49,917	55,741
Non-Current Liabilities				
Long Term borrowings	11,132	13,632	17,632	15,132
Provisions	87	87	87	87
Other non current liabilities	127	127	127	127
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,671	3,140	3,603	4,161
Other current liabilities	8,869	10,388	11,677	13,195
Total Equity & Liabilities	70,904	79,876	91,274	97,138

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	7,847	7,114	8,439	9,271
Add. Depreciation	2,922	3,010	3,235	3,716
Add. Interest	592	605	847	1,032
Less Financial Other Income	1,249	1,365	1,578	1,424
Add. Other	(82)	(398)	(533)	(292)
Op. profit before WC changes	11,278	10,332	11,988	13,727
Net Changes-WC	1,564	(138)	(240)	(176)
Direct tax	(1,713)	(1,779)	(1,941)	(2,132)
Net cash from Op. activities	11,129	8,415	9,807	11,419
Capital expenditures	(4,942)	(11,363)	(13,250)	(7,300)
Interest / Dividend Income	164	306	436	191
Others	22	92	96	101
Net Cash from Invt. activities	(4,756)	(10,965)	(12,717)	(7,008)
Issue of share cap. / premium	(1,681)	-	-	-
Debt changes	(4,682)	2,500	4,000	(2,500)
Dividend paid	(852)	(852)	(852)	(852)
Interest paid	(658)	(605)	(847)	(1,032)
Others	-	-	-	-
Net cash from Fin. activities	(7,872)	1,043	2,301	(4,383)
Net change in cash	(1,499)	(1,506)	(609)	27
Free Cash Flow	11,129	8,415	9,807	11,419

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	12,508	11,860	11,413	12,065
YoY gr. (%)	23.4	19.7	10.9	15.2
Raw Material Expenses	2,313	1,808	1,854	2,002
Gross Profit	10,195	10,052	9,558	10,063
Margin (%)	81.5	84.8	83.8	83.4
EBITDA	2,682	2,164	2,049	2,101
YoY gr. (%)	20.9	(19.3)	(5.3)	2.5
Margin (%)	21.4	18.2	18.0	17.4
Depreciation / Depletion	754	735	728	756
EBIT	1,928	1,429	1,321	1,345
Margin (%)	15.4	12.1	11.6	11.1
Net Interest	105	114	131	135
Other Income	230	388	482	105
Profit before Tax	2,053	1,703	1,671	1,315
Margin (%)	16.4	14.4	14.6	10.9
Total Tax	967	453	464	304
Effective tax rate (%)	47.1	26.6	27.7	23.1
Profit after Tax	1,086	1,250	1,208	1,011
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,374	1,250	1,208	1,011
YoY gr. (%)	2.2	(19.8)	(25.7)	(9.3)
Margin (%)	11.0	10.5	10.6	8.4
Extra Ord. Income / (Exp)	(288)	-	-	-
Reported PAT	1,086	1,250	1,208	1,011
YoY gr. (%)	(19.2)	(19.8)	(28.3)	(17.7)
Margin (%)	8.7	10.5	10.6	8.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,086	1,250	1,208	1,011
Avg. Shares O/s (m)	238	238	238	238
EPS (Rs)	5.8	5.3	5.1	4.2

Source: Company Data, PL Research

Key Financial Metrics

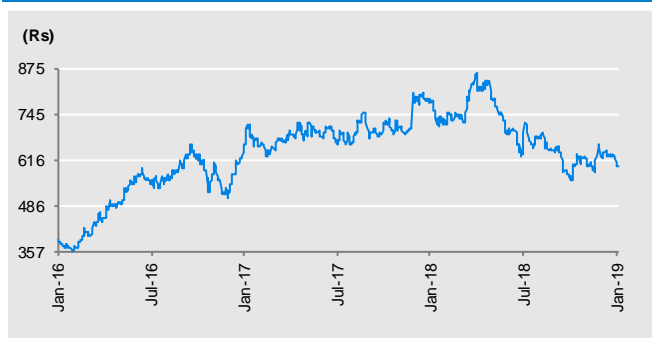
Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	23.6	21.7	25.8	28.3
CEPS	36.0	34.5	39.5	44.1
BVPS	171.6	189.7	211.9	236.6
FCF	47.2	35.7	41.6	48.5
DPS	1.0	1.0	1.0	1.0
Return Ratio(%)				
RoCE	13.9	11.6	12.2	12.8
ROIC	10.0	8.3	8.7	9.1
RoE	14.3	12.0	12.8	12.6
Balance Sheet				
Net Debt : Equity (x)	0.2	0.3	0.4	0.3
Net Working Capital (Days)	62	66	66	66
Valuation(x)				
PER	24.3	26.4	22.2	20.2
P/B	3.3	3.0	2.7	2.4
P/CEPS	15.9	16.6	14.5	13.0
EV/EBITDA	14.3	15.9	14.0	12.0
EV/Sales	3.4	3.0	2.7	2.3
Dividend Yield (%)	0.2	0.2	0.2	0.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Volume (mn te)-Cement	9	11	13	14
Cement Realisations-Cement (Rs/te)	4,637	4,555	4,544	4,564
Cement EBITDA (Rs/te)	1,086	856	870	870
Raw material cost (Rs/te)	774	761	775	792
Power & Fuel cost (Rs/te)	783	944	911	905
Freight cost (Rs/te)	997	1,066	1,077	1,099

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	6-Feb-18	Accumulate	830	732
2	13-Apr-18	Accumulate	828	831
3	23-May-18	Accumulate	890	798
4	12-Jun-18	Hold	790	747
5	10-Jul-18	Hold	790	704
6	2-Aug-18	Hold	735	693
7	5-Oct-18	Hold	735	638
8	30-Oct-18	Hold	640	602
9	7-Jan-19	Hold	660	629

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,710	1,478
2	Ambuja Cement	Hold	220	218
3	Coal India	Hold	262	235
4	Heidelberg Cement India	BUY	200	150
5	Hindalco Industries	Accumulate	280	209
6	Hindustan Zinc	Hold	275	268
7	Jindal Steel & Power	BUY	239	152
8	JK Lakshmi Cement	Hold	340	315
9	JSW Steel	BUY	360	290
10	NMDC	Reduce	86	95
11	Shree Cement	Hold	16,800	15,918
12	Steel Authority of India	Hold	50	53
13	Tata Steel	BUY	785	486
14	The Ramco Cements	Hold	660	629
15	Ultratech Cement	Hold	3,725	3,791

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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