

*Good set of results on the back of improving margins and strong realisation; upgrade to Accumulate with a Target Price of Rs 853*

Current	Previous
<b>CMP: Rs 754</b>	
<b>Rating: Accumulate</b>	<b>Rating: Hold</b>
<b>Target: Rs 853</b>	<b>Target: Rs 853</b>

(NR-Not Rated)

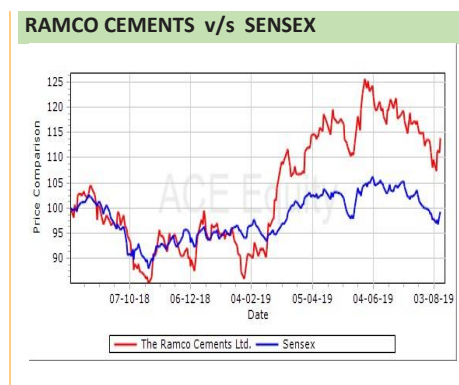
Stock Info	
INDEX	
BSE	500260
NSE	RAMCOCEM
Bloomberg	TRCL IN
Reuters	TRCE.BO
Sector	Cement
Face Value (Rs)	1
Equity Capital (Rs Mn)	236
Market Cap (Rs Mn)	177,642
52w H/L (Rs)	845/547
Avg Weekly Vol (BSE+NSE)	2,438,110

Shareholding Pattern	%
<b>(As on June, 2019)</b>	
Promoters	42.7
Public & Others	57.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
RAMCO CEMENTS	0.9	23.4	14.1
SENSEX	0.1	2.8	-1.2

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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**Ramco Cements came out with good set of results in Q1FY20, ahead of our estimates except a minor miss on revenue. Revenue for the quarter grew 13.4% YoY to Rs 13839 mn against our estimate of Rs 14519 mn. EBITDA for Q1FY20 came at Rs 3593 mn (estimate Rs 3368 mn) a growth of 43.6% YoY and 10.5% QoQ. EBITDA margin expanded +545bps YoY/+475bps QoQ to 26% for the quarter against our estimate of 23.2%. Expansion in EBITDA margin came on the back of softening of coal and pet coke prices during the quarter. Also in its fuel mix, Ramco reduced its pet coke usage to 42% compared to 62% in Q1FY19. PAT for the quarter stood at Rs 1920 mn which was ahead of our estimate of Rs 1713 mn, a growth of 53.6% YoY and 16.1% QoQ. We remain positive on Ramco Cements from longer term perspective and factoring in strong result, upgrade the stock from Hold to Accumulate, with a target price of Rs 853 (unchanged).**

### Q1FY20 Operational Highlights

- For the quarter Ramco registered a volume growth of 2.7% YoY in its domestic sales to 2.65 MT against 2.58 MT in Q1FY19. The coal and pet coke prices have softened during the quarter. In the fuel mix, pet coke usage was reduced to 42% during the quarter against 62% in Q1FY19.
- In its Wind Power division, Ramco generated 78.2 mn units in Q1FY20 against 67.3 mn units in Q1FY19. The revenue from wind power for FY19 stood Rs 617.5 mn against Rs 669.6 mn in FY18

### Update on Capacity Expansion Plans

- Installation of equipments completed for expansion of grinding unit in Kolaghat, WB from 1 - 2 MTPA. Trial run is on, will be commissioned shortly. New grinding unit in Haridaspur, Odisha with a capacity of 0.9 mtpa is expected to be commissioned during October, 2019. Expansion of grinding unit near Vizag, AP from 0.95 -2 mtpa is expected to get commissioned during March, 2020. Expansion of clinkering capacity at Jayanthipuram, AP from 3-4.5 mtpa alongwith wind capacity of 27 MW is expected to be commissioned during September, 2020.

### Outlook and Valuations

Cement prices have seen some correction in last two months due to seasonal factors like slow industrial activity during monsoon. Despite subdued demand, Ramco's operating performance for Q1FY20 was impressive. At CMP of Rs 754, Ramco is trading at an EV/EBITDA of 15.9x and 13.4x its FY20E and FY21E estimates respectively. Factoring in strong Q1FY20 results we upgrade our rating from Hold to Accumulate with a target price of Rs 853.

### Financial Performance

YE March (Rs Mn)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	EV/EBITDA (x)
FY18	44,238	11,129	5,638	23.9	25.2	13.7	16.8
FY19	51,623	10,445	5,107	21.7	20.2	11.3	18.3
FY20E	58,076	12,138	5,980	25.4	20.9	12.3	15.9
FY21E	66,788	14,493	7,461	31.7	21.7	14.0	13.4

Source: Combanv. Arihant Research

### Q1FY20 Financial Performance

Rs Mn (standalone)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>13,839</b>	<b>15,324</b>	<b>12,199</b>	<b>-9.7%</b>	<b>13.4%</b>
Material Cost	7,480	9,197	7,306	-18.7%	2.4%
Employee Cost	884	823	820	7.3%	7.8%
Other Expenses	1,882	2,053	1,571	-8.3%	19.8%
<b>EBITDA</b>	<b>3,593</b>	<b>3,251</b>	<b>2,503</b>	<b>10.5%</b>	<b>43.6%</b>
<i>EBITDA Margin %</i>	<i>26.0%</i>	<i>21.2%</i>	<i>20.5%</i>	<i>+475bps</i>	<i>+545bps</i>
Other Income	82	111	49	-26.2%	65.9%
Depreciation	758	767	735	-1.2%	3.2%
<b>EBIT</b>	<b>2,917</b>	<b>2,595</b>	<b>1,817</b>	<b>12.4%</b>	<b>60.5%</b>
Finance Cost	135	128	114	5.4%	18.2%
Exceptional Item	-	-	-	-	-
<b>PBT</b>	<b>2,782</b>	<b>2,467</b>	<b>1,703</b>	<b>12.8%</b>	<b>63.3%</b>
Tax Expense	862	813	453	6.0%	90.2%
Effective Tax Rate %	31.0%	33.0%	26.6%	-197bps	+438bps
<b>PAT</b>	<b>1,920</b>	<b>1,654</b>	<b>1,250</b>	<b>16.1%</b>	<b>53.6%</b>
<i>PAT Margin %</i>	<i>13.9%</i>	<i>10.8%</i>	<i>10.2%</i>	<i>+308bps</i>	<i>+363bps</i>
<b>EPS (Rs)</b>	<b>8.1</b>	<b>7.0</b>	<b>5.3</b>	<b>16.1%</b>	<b>53.6%</b>

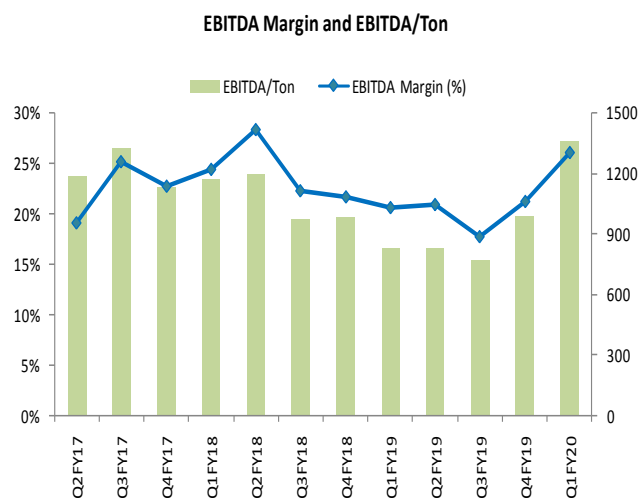
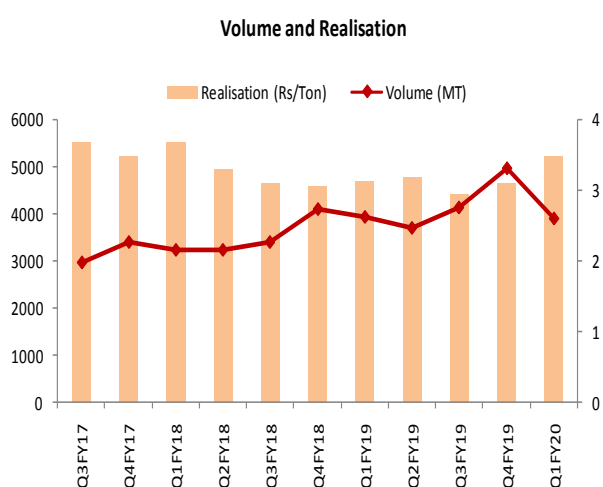
Source: Company, Arianth Research

### Per Ton Analysis

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Volumes (MT)	2.0	2.3	2.2	2.2	2.3	2.7	2.6	2.5	2.7	3.3	2.6
Realisation (Rs/Ton)	5508	5226	5529	4956	4645	4586	4667	4794	4406	4644	5226
Growth (%)	10.9%	-5.1%	5.8%	-10.4%	-6.3%	-1.3%	1.8%	2.7%	-8.1%	5.4%	12.5%
EBITDA Margin (%)	25.2%	22.8%	24.4%	28.3%	22.3%	21.7%	20.5%	20.9%	17.7%	21.2%	26.0%
EBITDA (Rs/Ton)	1323	1132	1173	1193	975	980	828	830	765	985	1357

Source: Company, Arianth Research

### Volume, Realisation, EBITDA Margin and EBITDA/Ton metrics of Ramco Cements over the quarters



Source: Company, Arianth Research

### Outlook

With improving realizations and robust operating margins, we expect Ramco Cements to improve its efficiency going forward. Also with moderation of pet coke and coal prices, Ramco's margins will further improve in subsequent quarters. Also the company has been constantly focussing on various cost reduction initiatives and has been able to improve its productivity without compromising on quality.

Volume growth of Ramco was muted during the quarter due to seasonality like monsoon and overall slowdown in the construction activity in the sector on account of liquidity crunch. We expect volume growth to rebound in the subsequent quarters as demand picks up.

### Valuations

After factoring in strong Q1FY20 results, we have kept our FY20E and FY21E estimates intact and continue to value the stock at a target EV/EBITDA multiple of 15x its FY21E estimate which yields a target price of Rs 853 for the stock. We upgrade our rating from 'HOLD' to 'Accumulate' with a target price of Rs 853, which gives an upside potential of 13.1%.

#### Valuations

Rs Mn	FY19	FY20E	FY21E
EV/EBITDA (x)	18.3	15.9	15.0
EBITDA	10445	12138	14493
EV	190999	192717	*217394
Debt	14305	15805	17305
Cash	948	731	848
Market Cap	177642	177642	200937
No of Shares	236	236	236
CMP (Rs)	754	754	754
Target (Rs)			853
<b>Upside (%)</b>			<b>13.1%</b>

\*EV on basis of target EV/EBITDA multiple of 15x

## Consolidated Financials

## Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
<b>Revenues</b>	44,238	51,623	58,076	66,788
<i>Change (%)</i>	11.5%	16.7%	12.5%	15.0%
<b>Total Expenses</b>	33,109	41,179	45,938	52,295
<b>EBITDA</b>	11,129	10,445	12,138	14,493
Other Income	327	250	290	334
Depreciation	2,935	3,000	3,317	3,545
Interest	608	514	569	623
<b>PBT</b>	<b>7,913</b>	<b>7,181</b>	<b>8,543</b>	<b>10,659</b>
Extra-ordinary	0	0	0	0
<b>PBT after ext-ord.</b>	7,913	7,181	8,543	10,659
Tax	2,311	2,106	2,563	3,198
<i>Rate (%)</i>	29.2%	29.3%	30.0%	30.0%
<b>PAT</b>	<b>5,602</b>	<b>5,075</b>	<b>5,980</b>	<b>7,461</b>
<b>MI &amp; Associates</b>	<b>35</b>	<b>33</b>	<b>0</b>	<b>0</b>
<b>Consolidated PAT</b>	<b>5,638</b>	<b>5,107</b>	<b>5,980</b>	<b>7,461</b>
<i>Change (%)</i>	-14.9%	-9.4%	17.1%	24.8%

Source: Company, Arianth Research

## Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
<b>Sources of Funds</b>				
Share Capital	236	236	236	236
Reserves & Surplus	40,815	45,134	48,381	53,059
<b>Net Worth</b>	<b>41,051</b>	<b>45,370</b>	<b>48,616</b>	<b>53,295</b>
<b>Loan Funds</b>	<b>10,014</b>	<b>14,305</b>	<b>15,805</b>	<b>17,305</b>
MI, Deferred Tax & other Liabilities	7,691	8,824	8,824	8,824
<b>Capital Employed</b>	<b>58,756</b>	<b>68,499</b>	<b>73,245</b>	<b>79,423</b>
<b>Application of Funds</b>				
Net Block	53,224	54,004	57,187	63,142
CWIP	1,749	8,526	8,526	8,526
Other Non-current Assets	1,025	2,779	2,779	2,779
Deferred Tax Assets	0	0	4	4
<b>Net Fixed Assets</b>	<b>55,999</b>	<b>65,308</b>	<b>68,496</b>	<b>74,451</b>
<b>Investments</b>	<b>2,280</b>	<b>2,587</b>	<b>2,587</b>	<b>2,587</b>
Debtors	4,423	4,901	5,569	6,404
Inventories	5,613	5,611	6,205	7,026
Cash & Bank Balance	1,199	948	731	848
Loans & Advances & other CA	2,067	2,683	3,182	3,660
<b>Total Current Assets</b>	<b>13,302</b>	<b>14,143</b>	<b>15,687</b>	<b>17,938</b>
Current Liabilities	12,254	13,128	13,525	15,553
Provisions	571	412	0	0
<b>Net Current Assets</b>	<b>477</b>	<b>604</b>	<b>2,163</b>	<b>2,385</b>
<b>Total Assets</b>	<b>58,756</b>	<b>68,499</b>	<b>73,245</b>	<b>79,423</b>

Source: Company, Arianth Research

**Cash Flow Statement**

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>7,913</b>	<b>7,181</b>	<b>8,543</b>	<b>10,659</b>
Depreciation	2,935	3,000	3,317	3,545
Interest & others	246	232	279	289
Cash flow before WC changes	11,094	10,412	12,138	14,493
<b>(Inc)/dec in working capital</b>	<b>372</b>	<b>741</b>	<b>-1,777</b>	<b>-105</b>
Operating CF after WC changes	11,466	11,153	10,361	14,388
Less: Taxes	-2,311	-2,106	-2,563	-3,198
<b>Operating Cash Flow</b>	<b>9,155</b>	<b>9,047</b>	<b>7,799</b>	<b>11,190</b>
(Inc)/dec in F.A + CWIP	-1,864	-9,310	-6,504	-9,500
(Pur)/sale of investment	-176	-307	0	0
<b>Cash Flow from Investing</b>	<b>-2,039</b>	<b>-9,616</b>	<b>-6,504</b>	<b>-9,500</b>
<b>Free Cash Flow (FCF)</b>	<b>7,491</b>	<b>1,491</b>	<b>1,299</b>	<b>1,690</b>
Loan raised/(repaid)	-1,441	4,291	1,500	1,500
Equity raised	-3	0	0	0
Interest & others	-4,819	-3,266	-2,188	-2,130
Dividend	-852	-707	-825	-942
<b>Cash Flow from Financing Activities</b>	<b>-7,114</b>	<b>318</b>	<b>-1,512</b>	<b>-1,573</b>
<b>Net inc /(dec) in cash</b>	<b>2</b>	<b>-251</b>	<b>-218</b>	<b>118</b>
Opening balance of cash	1,198	1,199	948	731
Closing balance of cash	1,199	948	731	848

Source: Company, Aриhant Research

**Key Ratios**

Y/E March	FY18	FY19	FY20E	FY21E
<b>Per share (Rs)</b>				
EPS	23.9	21.7	25.4	31.7
CEPS	36.4	34.4	39.5	46.7
BVPS	174.2	192.6	206.4	226.2
DPS	3.6	3.0	3.5	4.0
Div. Payout (%)	15.1%	13.8%	13.8%	12.6%
<b>Valuation (x)</b>				
P/E	31.5	34.8	29.7	23.8
P/CEPS	20.7	21.9	19.1	16.1
P/BV	4.3	3.9	3.7	3.3
EV/EBITDA	16.8	18.3	15.9	13.4
Dividend Yield (%)	0.5%	0.4%	0.5%	0.5%
<b>Return Ratio (%)</b>				
EBIDTA Margin	25.2%	20.2%	20.9%	21.7%
PAT Margin	12.7%	9.9%	10.3%	11.2%
ROE	13.7%	11.3%	12.3%	14.0%
ROCE	13.9%	10.9%	12.0%	13.8%
<b>Leverage Ratio (x)</b>				
Total D/E	0.2	0.3	0.3	0.3
Net D/E	0.2	0.3	0.3	0.3
<b>Turnover Ratios</b>				
Asset Turnover (x)	0.8	0.8	0.8	0.8
Receivable Days	36	35	35	35
Payable days	106	96	85	85

Source: Company, Aриhant Res

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**Stock Rating Scale****Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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