

Robust set of results on the back of double digit volume growth despite seasonality and extended monsoon; maintain Accumulate with a TP of Rs 853

Current	Previous
CMP: Rs 749	
Rating: Accumulate	Rating: Accumulate
Target: Rs 853	Target: Rs 853

(NR-Not Rated)

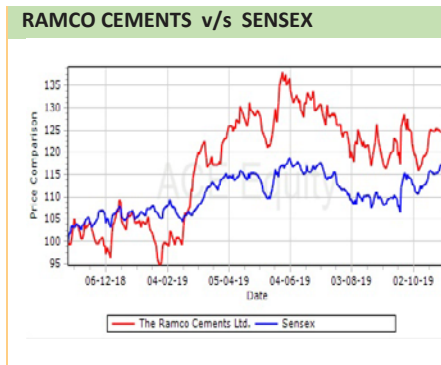
Stock Info	
INDEX	
BSE	500260
NSE	RAMCOCEM
Bloomberg	TRCL IN
Reuters	TRCE.BO
Sector	Cement
Face Value (Rs)	1
Equity Capital (Rs Mn)	236
Market Cap (Rs Mn)	176,464
52w H/L (Rs)	845/556
Avg Weekly Vol (BSE+NSE)	2,134,710

Shareholding Pattern	%
(As on Sept, 2019)	
Promoters	42.7
Public & Others	57.3

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
RAMCO CEMENTS	-0.2	-4.0	31.6
SENSEX	5.7	2.0	16.9

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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Ramco Cement came out with good set of results in Q2FY20, ahead of our estimate. Revenue for the quarter grew 11.2% YoY to Rs 13,167 mn against our estimate of Rs 12,777 mn. EBITDA for Q2FY20 came at Rs 2,952 mn (estimate Rs 2,683 mn), registering a growth of +19.4% YoY/-17.8% QoQ. EBITDA margin expanded +154bps YoY/-354bps QoQ to 22.4% for the quarter against our estimate of 21%. PAT for the quarter stood at Rs 1,682 mn which was well ahead of our estimate of Rs 1,405 mn, registering a growth of +46.9% YoY/-12.4% QoQ. We remain positive on Ramco Cements from longer term perspective and factoring in stable results, maintain our Accumulate rating on the stock with a target price of Rs 853 (unchanged).

Q2FY20 Operational Highlights

- For Q2FY20 Ramco registered a volume growth of 10.3% YoY in its sales volume to 2.72 MT against 2.47 MT in Q2FY19. During the quarter margin expanded by 154bps YoY, the expansion came on the back of lower logistics costs despite higher (+7.1% YoY) raw material expenses. Though on QoQ basis margin contracted by 354bps due to high base.
- In its Wind Power division, Ramco generated 113.8 mn units in Q2FY20 against 141.2 mn units in Q2FY19. The revenue from wind power for H1FY20 stood at Rs 518.3 mn against Rs 580.2 mn in H1FY19.
- During H1FY20, Ramco has launched a premium product variant viz., "SUPERCRETE" in the Tamilnadu, Kerala, Karnataka and Andhra Pradesh markets and the response has been encouraging.

Update on Capacity Expansion Plans

- The unit-2 of cement grinding in Kolaghat, West Bengal commenced commercial production from 26th Sept, thereby increasing the installed grinding capacity in Kolaghat from 1 - 2 MTPA. The remaining on-going capacity expansion programme is progressing as per schedule but for the delays due to extended monsoon. Ramco has so far incurred Rs 14.3 bn for its capex programme.

Outlook and Valuations

Cement prices have seen some correction in last few months due to seasonal factors like slow industrial activity during monsoon. Despite subdued demand, Ramco's operating performance for Q2FY20 was impressive. At CMP of Rs 749, Ramco is trading at an EV/EBITDA of 15.8x and 13.3x its FY20E and FY21E estimates respectively. **Factoring in stable Q2FY20 results, despite overall slowdown, we maintain our Accumulate rating on the stock 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	16.6
FY19	51,623	10,445	5,107	21.7	20.2	11.3	18.2
FY20E	58,076	12,138	5,980	25.4	20.9	12.3	15.8
FY21E	66,788	14,493	7,461	31.7	21.7	14.0	13.3

Source: Company, Arihant Research

Q2FY20 and H1FY20 Financial Performance

Rs Mn (standalone)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	13,167	13,839	11,835	-4.9%	11.2%	27,006	24,034	12.4%
Material Cost	7,407	7,480	6,917	-1.0%	7.1%	14,887	14,223	4.7%
Employee Cost	987	884	839	11.7%	17.6%	1,871	1,659	12.8%
Other Expenses	1,821	1,882	1,608	-3.3%	13.2%	3,703	3,179	16.5%
EBITDA	2,952	3,593	2,472	-17.8%	19.4%	6,545	4,974	31.6%
<i>EBITDA Margin %</i>	<i>22.4%</i>	<i>26.0%</i>	<i>20.9%</i>	<i>-354bps</i>	<i>+154bps</i>	<i>24.2%</i>	<i>20.7%</i>	<i>+354bps</i>
Other Income	92	82	59	13.0%	56.0%	174	108	60.5%
Depreciation	765	758	728	1.0%	5.1%	1,523	1,463	4.1%
EBIT	2,279	2,917	1,803	-21.9%	26.4%	5,196	3,620	43.5%
Finance Cost	147	135	131	8.9%	12.3%	283	246	15.0%
Exceptional Item	-	-	-	-	-	-	-	-
PBT	2,132	2,782	1,671	-23.4%	27.5%	4,913	3,374	45.6%
Tax Expense	450	862	527	-47.8%	-14.5%	1,312	980	33.9%
<i>Effective Tax Rate %</i>	<i>21.1%</i>	<i>31.0%</i>	<i>31.5%</i>	<i>-987bps</i>	<i>-1039bps</i>	<i>26.7%</i>	<i>29.0%</i>	<i>-233bps</i>
PAT	1,682	1,920	1,145	-12.4%	46.9%	3,601	2,395	50.4%
<i>PAT Margin %</i>	<i>12.8%</i>	<i>13.9%</i>	<i>9.7%</i>	<i>-110bps</i>	<i>+310bps</i>	<i>13.3%</i>	<i>10.0%</i>	<i>+337bps</i>
EPS (Rs)	7.1	8.1	4.9	-12.4%	46.9%	15.3	10.2	50.4%

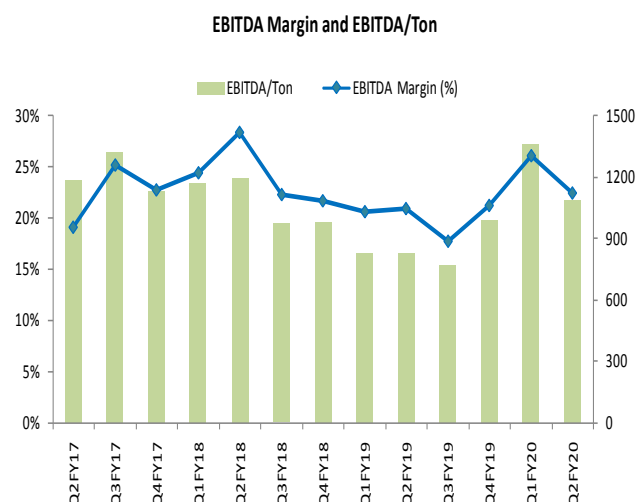
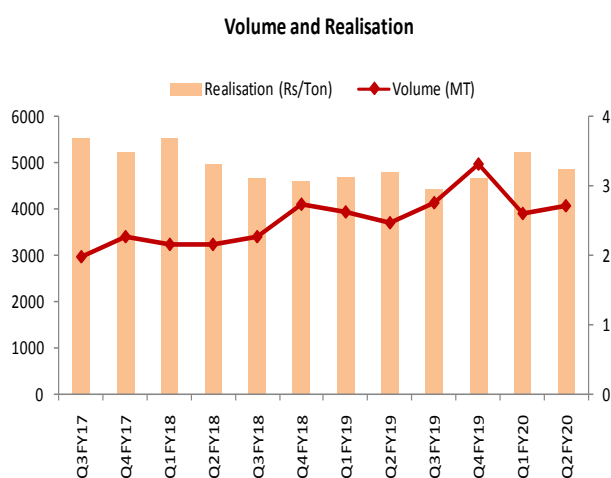
Source: Company, Aриhant Research

Per Ton Analysis

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Volumes (MT)	2.0	2.3	2.2	2.2	2.3	2.7	2.6	2.5	2.7	3.3	2.6	2.7
Realisation (Rs/Ton)	5508	5226	5529	4956	4645	4586	4667	4794	4406	4644	5226	4834
Growth (%)	10.9%	-5.1%	5.8%	-10.4%	-6.3%	-1.3%	1.8%	2.7%	-8.1%	5.4%	12.5%	-7.5%
EBITDA Margin (%)	25.2%	22.8%	24.4%	28.3%	22.3%	21.7%	20.5%	20.9%	17.7%	21.2%	26.0%	22.4%
EBITDA (Rs/Ton)	1323	1132	1173	1193	975	980	828	830	765	985	1357	1084

Source: Company, Aриhant Research

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



Source: Company, Aриhant Research

Outlook

With impressive double digit volume growth despite extended monsoon and seasonality, we expect Ramco Cements to improve its efficiency further going forward. Also with moderation of pet coke and coal prices, Ramco's margins are likely to sustain in subsequent quarters. Over the last several quarters, the company has been constantly focusing on various cost reduction initiatives and has been able to improve its productivity without compromising on quality.

Valuations

Despite extended monsoon and slowdown in construction activities during Q2FY20, Ramco was able to post strong Q2FY20 results surpassing our estimates. After factoring in stable 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 maintain our 'Accumulate' rating on the stock with a target price of Rs 853, which gives an upside potential of 13.9%.

Valuations

Rs Mn	FY19	FY20E	FY21E
EV/EBITDA (x)	18.2	15.8	15.0
EBITDA	10445	12138	14493
EV	189821	191539	*217394
Debt	14305	15805	17305
Cash	948	731	848
Market Cap	176464	176464	200937
No of Shares	236	236	236
CMP (Rs)	749	749	749
Target (Rs)			853
Upside (%)			13.9%

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

Consolidated Financials

Income Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Revenues	44,238	51,623	58,076	66,788
<i>Change (%)</i>	11.5%	16.7%	12.5%	15.0%
Total Expenses	33,109	41,179	45,938	52,295
EBITDA	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
PBT	7,913	7,181	8,543	10,659
Extra-ordinary	0	0	0	0
PBT after ext-ord.	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%
PAT	5,602	5,075	5,980	7,461
MI & Associates	35	33	0	0
Consolidated PAT	5,638	5,107	5,980	7,461
<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
Sources of Funds				
Share Capital	236	236	236	236
Reserves & Surplus	40,815	45,134	48,381	53,059
Net Worth	41,051	45,370	48,616	53,295
Loan Funds	10,014	14,305	15,805	17,305
MI, Deferred Tax & other Liabilities	7,691	8,824	8,824	8,824
Capital Employed	58,756	68,499	73,245	79,423
Application of Funds				
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
Net Fixed Assets	55,999	65,308	68,496	74,451
Investments	2,280	2,587	2,587	2,587
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
Total Current Assets	13,302	14,143	15,687	17,938
Current Liabilities	12,254	13,128	13,525	15,553
Provisions	571	412	0	0
Net Current Assets	477	604	2,163	2,385
Total Assets	58,756	68,499	73,245	79,423

Source: Company, Arianth Research

Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
PBT	7,913	7,181	8,543	10,659
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
(Inc)/dec in working capital	372	741	-1,777	-105
Operating CF after WC changes	11,466	11,153	10,361	14,388
Less: Taxes	-2,311	-2,106	-2,563	-3,198
Operating Cash Flow	9,155	9,047	7,799	11,190
(Inc)/dec in F.A + CWIP	-1,864	-9,310	-6,504	-9,500
(Pur)/sale of investment	-176	-307	0	0
Cash Flow from Investing	-2,039	-9,616	-6,504	-9,500
Free Cash Flow (FCF)	7,491	1,491	1,299	1,690
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
Cash Flow from Financing Activities	-7,114	318	-1,512	-1,573
Net inc /(dec) in cash	2	-251	-218	118
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
Per share (Rs)				
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%
Valuation (x)				
P/E	31.3	34.6	29.5	23.7
P/CEPS	20.6	21.8	19.0	16.0
P/BV	4.3	3.9	3.6	3.3
EV/EBITDA	16.6	18.2	15.8	13.3
Dividend Yield (%)	0.5%	0.4%	0.5%	0.5%
Return Ratio (%)				
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%
Leverage Ratio (x)				
Total D/E	0.2	0.3	0.3	0.3
Net D/E	0.2	0.3	0.3	0.3
Turnover Ratios				
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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