

Stable results, strong volume growth and expected revival in infrastructure activities keep our faith intact on Ramco; Recommend Hold with a revised target price of Rs 853

| Current | Previous |
|-----------------------|-----------------------|
| CMP: Rs 765 | Rating: |
| Rating: Hold | Accumulate |
| Target: Rs 853 | Target: Rs 692 |

(NR-Not Rated)

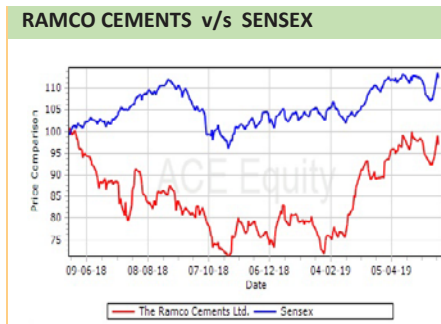
| Stock Info | |
|--------------------------|-----------|
| INDEX | |
| BSE | 500260 |
| NSE | RAMCOCEM |
| Bloomberg | TRCL IN |
| Reuters | TRCE.BO |
| Sector | Cement |
| Face Value (Rs) | 1 |
| Equity Capital (Rs Mn) | 236 |
| Market Cap (Rs Mn) | 180,234 |
| 52w H/L (Rs) | 852 / 547 |
| Avg Weekly Vol (BSE+NSE) | 1,019,970 |

| Shareholding Pattern | % |
|----------------------------|------|
| (As on March, 2019) | |
| Promoters | 42.7 |
| Public & Others | 57.3 |

Source: NSE, Arihant Research

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|------|
| RAMCO CEMENTS | 19.8 | 22.5 | -5.5 |
| SENSEX | 8.6 | 10.7 | 12.6 |

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Ramco Cement came out with stable set of results in Q4FY19, ahead of our estimates. Revenue for the quarter grew 22.1% YoY and 26.6% QoQ to Rs 15324 mn against our estimate of Rs 13370 mn. EBITDA for Q4FY19 came at Rs 3251 mn (estimate Rs 2540 mn) a growth of 19.5% YoY and 51.9% QoQ. EBITDA margin expanded 354bps QoQ (-48bps YoY) to 21.2% for the quarter against 21.7% in corresponding quarter last year. EBITDA margin was stable YoY (slight fall of 48bps) despite higher raw material (+24.3% YoY) costs, due to efficiency at the company level. PAT for the quarter stood at Rs 1654 mn which was ahead of our estimate of Rs 1520 mn, a growth of 52.3% YoY and 63.6% QoQ. The robust growth of PAT on YoY basis (+52.3% YoY) was partially due to lower effective tax rate for the quarter (33% in Q4FY19 v/s 47.1% in Q4FY18). We remain positive on Ramco Cements from longer term perspective, and have a Hold rating with a revised target price of Rs 853.

Q4FY19 & FY19 Operational Highlights

- For Q4FY19, Ramco witnessed strong volume growth both in southern and eastern markets due to strong demand in all the segments viz., retail, infrastructure and affordable housing. Sales volume grew by 20.6% YoY to 3.3mt, while for FY19 volume grew 19.3% YoY to 11.1mt.
- Despite impressive volume growth during Q4FY19, realisation remained flat at Rs 4644/ton (+1.3% YoY) owing to increase in transportation cost due to diesel price rise. Average diesel price rose by 17% during FY19, putting pressure on transportation cost. Also due to increase in pet coke and imported coal price, power and fuel costs have gone up sharply. Average pet coke prices were elevated during H1FY19 (US\$102-106), which gradually softened during H2FY19. Also rupee depreciation during the year impacted the fuel price.
- In its Wind Power division, Ramco generated 242.6 mn units for FY19 against 262.4 mn units in FY18. The revenue from wind power for FY19 stood Rs 617.5 mn against Rs 669.6 mn in FY18.

Capacity Expansion Status

- Expansion of grinding unit in Kolaghat, West Bengal from 1 - 2 mtpa is expected to get commissioned by end of May, 2019, while its new grinding unit in Haridaspur, Odisha with a capacity of 0.9 mtpa is expected to get commissioned during October, 2019. Expansion of grinding unit near Vizag, from 0.95 - 2 mtpa will get commissioned during December, 2019. Ramco's clinker capacity expansion project at Jayanthipuram, AP from 3 - 4.5 mtpa is expected to be commissioned during July, 2020. It is also setting up a new cement plant in Kolimigundla, Kurnool District, AP with clinkering capacity of 2.25 mtpa and cement capacity of 1 mtpa, both of which are expected to be commissioned during March, 2021. The proposed plant will have facilities like railway siding, wind power plant of 10 MW and thermal power plant of 15 MW.

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 | 17.0 |
| FY19 | 51,623 | 10,445 | 5,107 | 21.7 | 20.2 | 11.3 | 18.5 |
| FY20E | 58,076 | 12,138 | 5,980 | 25.4 | 20.9 | 12.3 | 16.1 |
| FY21E | 66,788 | 14,493 | 7,461 | 31.7 | 21.7 | 14.0 | 13.6 |

Source: Company, Arihant Research

Q4FY19 and FY19 Financial Performance

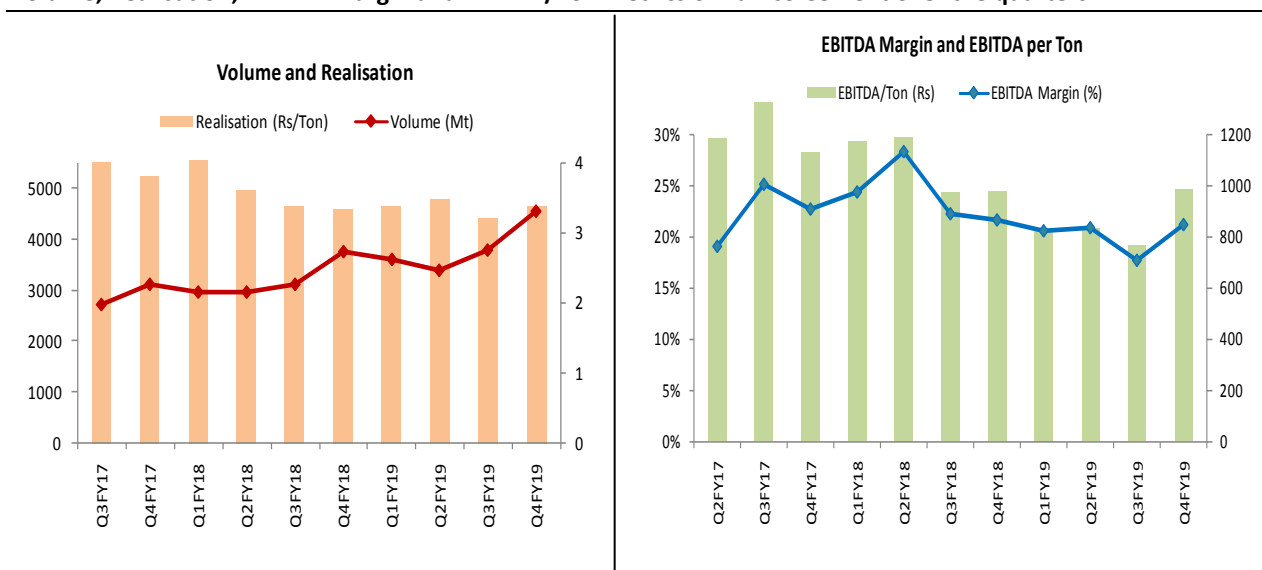
| Rs Mn (standalone) | Q4FY19 | Q3FY19 | Q4FY18 | Q-o-Q | Y-o-Y | FY19 | FY18 | Y-o-Y |
|----------------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|--------------|
| Net Revenue | 15,324 | 12,104 | 12,548 | 26.6% | 22.1% | 51,463 | 44,064 | 16.8% |
| Material Cost | 9,197 | 7,503 | 7,401 | 22.6% | 24.3% | 30,922 | 24,078 | 28.4% |
| Employee Cost | 823 | 813 | 738 | 1.3% | 11.6% | 3,295 | 3,040 | 8.4% |
| Other Expenses | 2,053 | 1,649 | 1,687 | 24.5% | 21.7% | 6,881 | 5,952 | 15.6% |
| EBITDA | 3,251 | 2,140 | 2,722 | 51.9% | 19.5% | 10,365 | 10,994 | -5.7% |
| EBITDA Margin % | 21.2% | 17.7% | 21.7% | +354bps | -48bps | 20.1% | 25.0% | -481 |
| Other Income | 111 | 66 | 190 | 68.4% | -41.9% | 284 | 366 | -22.4% |
| Depreciation | 767 | 756 | 754 | 1.5% | 1.7% | 2,985 | 2,922 | 2.2% |
| EBIT | 2,595 | 1,450 | 2,158 | 79.0% | 20.3% | 7,665 | 8,439 | -9.2% |
| Finance Cost | 128 | 135 | 105 | -4.8% | 22.7% | 509 | 592 | -14.1% |
| Exceptional Item | - | - | - | - | - | - | - | - |
| PBT | 2,467 | 1,315 | 2,053 | 87.6% | 20.1% | 7,156 | 7,847 | -8.8% |
| Tax Expense | 813 | 304 | 967 | 167.2% | -15.9% | 2,097 | 2,290 | -8.4% |
| Effective Tax Rate % | 33.0% | 23.1% | 47.1% | +982bps | -1415bps | 29.3% | 29.2% | 12 |
| PAT | 1,654 | 1,011 | 1,086 | 63.6% | 52.3% | 5,059 | 5,557 | -9.0% |
| PAT Margin % | 10.8% | 8.3% | 8.7% | +244bps | +214bps | 9.8% | 12.6% | -278 |
| EPS (Rs) | 7.0 | 4.3 | 4.6 | 63.6% | 52.3% | 21.5 | 23.6 | -9.0% |

Source: Company, Arianth Research

| | Q3FY17 | Q4FY17 | Q1FY18 | Q2FY18 | Q3FY18 | Q4FY18 | Q1FY19 | Q2FY19 | Q3FY19 | Q4FY19 |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Volumes (Mt) | 2.0 | 2.3 | 2.2 | 2.2 | 2.3 | 2.7 | 2.6 | 2.5 | 2.7 | 3.3 |
| Realisation (Rs) | 5508 | 5226 | 5529 | 4956 | 4645 | 4586 | 4667 | 4794 | 4406 | 4644 |
| EBITDA Margin (%) | 25.2% | 22.8% | 24.4% | 28.3% | 22.3% | 21.7% | 20.5% | 20.9% | 17.7% | 21.2% |
| EBITDA (Rs/Ton) | 1323 | 1132 | 1173 | 1193 | 975 | 980 | 828 | 830 | 765 | 985 |

Source: Company, Arianth Research

Volume, Realisation, EBITDA margin and EBITDA/Ton metrics of Ramco Cement over the quarters



Source: Company, Arianth Research

Valuations

With impressive volume growth and bottoming out of margins, we expect Ramco Cements to improve its efficiency going forward. Also with moderation of pet coke and coal prices during H2FY19, we believe prices will remain stable to range-bound in subsequent quarters. This will provide some comfort to Ramco to reduce its input cost pressure. Hence, we expect Ramco's margins to improve in the coming quarters. With a stable government at centre we believe infrastructure activities will pick up going forward, thereby increasing the demand for cement. This in turn will help the company to gain back its pricing power and improve its realisations.

After factoring in Q4FY19 results, we have revised our FY20E and FY21E estimates upwards as well as increased our target EV/EBITDA multiple (from 12x to 15x), to factor in the improved growth outlook for the company. **We now value the stock at a target EV/EBITDA multiple of 15x its FY21E estimates which yields a target price of Rs 853 for the stock. We have a 'HOLD' rating on Ramco Cements with a revised target price of Rs 853, which gives an upside potential of 11.5%.**

Valuations

| Rs Mn | FY19E | FY20E | FY21E |
|-------------------|--------|--------|--------------|
| EV/EBITDA (x) | 18.5 | 16.1 | 15.0 |
| EBITDA | 10445 | 12138 | 14493 |
| EV | 193591 | 195309 | *217394 |
| Debt | 14305 | 15805 | 17305 |
| Cash | 948 | 731 | 848 |
| Market Cap | 180234 | 180234 | 200937 |
| No of shares | 236 | 236 | 236 |
| CMP (Rs) | 765 | 765 | 765 |
| Target (Rs) | | | 853 |
| Upside (%) | | | 11.5% |

* EV on the 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 |
| Change (%) | 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 |
| Rate (%) | 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 |
| Change (%) | -14.9% | -9.4% | 17.1% | 24.8% |

Source: Company, Aриhant 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, Aриhant 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 | 32.0 | 35.3 | 30.1 | 24.2 |
| P/CEPS | 21.0 | 22.2 | 19.4 | 16.4 |
| P/BV | 4.4 | 4.0 | 3.7 | 3.4 |
| EV/EBITDA | 17.0 | 18.5 | 16.1 | 13.6 |
| 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% |

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