

South Indian Sales Dents Volumes

3rd Nov, 2017

CMP: Rs. 717
Target Price: Rs. 778
Recommendation: HOLD

The Ramco Cement Ltd. for its Q2 FY18 results reported net profit at Rs 169 cr with an increase by 8% from 156 cr in Q1 FY18 & decline of 19% from Rs.207 cr in Q2 FY17.

Stock Info

BSE Group	A
BSE Code	500260
NSE Symbol	RAMCOCEM
Bloomberg	TRCL.IN
Reuters	TRCE.BO
BSE Sensex	33,573
NSE Nifty	10,424

Market Info

Market Capital (cr.)	17,114
Equity Capital (cr.)	23.6
Avg. Trading Vol.	2,31,500
52 Wk High/ Low (Rs)	770/473
Face Value (Rs)	1.0

Shareholding Pattern (%)	(Sept 2017)
Promoters	42.7
Domestic Institutions	21.4
Foreign Institutions	14.8
Public & Others	21.1

Price Chart:



For the quarter ended June, 2017, company reported a fall in revenue by 9% to Rs 1,066 cr vs. Rs 1,122 cr in the corresponding quarter of previous year. The sale volume of cement has increased by 5% during the six months period ended 30th September 2017, compared to the corresponding period of the previous year. RCL's sales volume came in at 2.15mnT (including 0.03mnT exports) vs. 2.02mnT (including 0.04mnT exports) in the corresponding quarter of previous year. During the current year, cement demand in Tamil Nadu witnessed significant slowdown due to effects of severe drought and shortage of river sand. However, the sales have grown in the Eastern markets.

The company continues to strive for achieving better operating efficiencies through various cost reduction initiatives in power & fuel and logistics despite the adverse effects on operating cost due to continuous increase in diesel prices which resulted in higher EBITDA which came in at Rs 308 cr vs. Rs 295 cr as compared to previous quarter. Interest cost for the six months period ended 30th September 2017 has come down due to repayment of borrowings in the earlier periods. Besides the company's credit rating of A1+ for short term borrowings and AA+ for long term borrowings is helping the company to access cheaper sources of funds.

Wind power division for Q2 FY18 generated 1,210 lakhs units compared to 1,506 lakhs units during corresponding quarter of the previous year. The wind season has started early in the current year. The evacuation by Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) continues to be good.

Subsidiary company Ramco Windfarms Ltd. for Q2 FY18 generated 190 lakh units, with a revenue of Rs 7.15 cr as against 10.38 cr on YoY basis.

(Rs Cr)	2017	2018E	2019E
Income from Operations	3,857	4,674	4,791
EBITDA	1084	1175	1214
EBITDA margin %	28	25	25
Net Profit	649	641	726
EPS	27.3	26.9	30.5
ROE	19.2	15.6	15.5
P/E	25.2	28.5	25.2
EV/EBITDA	16.4	16.1	15.3

Source: Ace Equity, Arihant Research

Quarterly Analysis					
Particulars	Q2 FY18	Q2 FY17	YoY %	Q1 FY18	QoQ %
Net Sales	1066	1172	-9.0	1189	-10.3
Total Expenditure	765	816	-6.2	898	-14.9
EBITDA	302	357	-15.5	290	3.8
Other Income	7	2		5	
Interest	17	28		15	
Depreciation	72	67		72	
PBT	220	264	-17	208	5
Tax	51	57		52	
PAT	169	207	-19	156	8
EPS	7.2	8.7		6.6	

Valuation:

The company has continued to show a strong focus in various cost reduction initiatives in power, fuel, logistics and repayment of borrowings has helped the company to reduce interest costs. We are confident about the long term prospects of the company.

We have valued stock on EV/EBITDA of 15.5(x) its FY19 estimates and have arrived at a fair value of Rs 770 per share. We have **HOLD** rating on the stock.

Valuation :

	2017	2018E	2019E
EV/EBITDA	16.3	15.0	15.5
EBITDA	1084	1175	1214
EV	17722	17591	18811
Cash & Bank	-14	9	72
Debt	1089	647	353
Market Cap.	16619	16953	18530
No. of Shares	23.81	23.81	23.81
Fair Value			778
CMP		717	717
Upside			9%

Profit and Loss Account

Particulars (Rs crore)	2017	2018E	2019E
Income from Operations	4,582	4,674	4,791
YoY%	10.9	2.0	2.5
Power & Fuel Cost	518	584	608
Raw Material Cost	641	654	671
Selling & Distribution Exp	738	888	910
Other Expenditure	1495	1372	1388
Total Expenditure	3,393	3,498	3,577
EBITDA	1189	1175	1214
EBITDA margin %	26	25	25
Depreciation	284	284	301
EBIT	905	891	913
Other Income	39	43	85
Interest	105	80	30
PBT before Excp Items	840	854	968
Extraordinary/ Excp	0	0	0
PBT	840	854	968
Tax Expense	203	214	242
Net Profit	637	641	726
YoY%	14.0	0.6	13.3

Cash Flow Statement

Particulars (Rs crore)	2017	2018E	2019E
Operating Activities			
PBT	840	854	968
Add Depr	301	284	301
Others	69	100	150
Total	1,210	1,238	1,119
Changes in W.C	81	(0)	(1)
Cash Flow from Operations	1,291	1,238	1,118
Investing Activities			
Other investing activities	31	(153)	(171)
Capex	(307)	(528)	(485)
Cash Flow from Investing	(276)	(682)	(656)
Financing Activities			
Dividends + Taxes paid	(186)	(92)	(104)
Other financing activities	(659)	(442)	(294)
Cash Flow from Financing	(845)	(534)	(398)
Opening Cash	(185)	(14)	9
Changes during year	171	22	63
Closing Cash	(14)	9	72

Balance Sheet

Particulars (Rs crore)	2017	2018E	2019E
Equity & Liabilities			
(a) Share capital	24	24	24
(b) Reserves and surplus	3803	4351	4971
Shareholders' funds	3827	4375	4995
Non-current liab & Prov	1247	1984	1988
Current liabilities	2036	1815	1356
Total - Equity and liabilities	7110	8174	8536
Assets			
Non-current assets	5805	6245	6381
Fixed assets	4906	5012	5181
CWIP	147	190	125
Long Term Inv	401	469	560
Loans + Adv + Others	255	286	330
Other Non-current assets	96	150	185
Current assets	1306	1929	2155
Cash & Bank	-14	9	72
Other Current Assets	1319	1920	2083
Total - Assets	7110	8174	8536

Ratio Analysis

	2017	2018E	2019E
Profitability			
EBITDA%	26.0	25.1	25.3
EBIT%	19.8	19.1	19.0
PAT%	13.9	13.7	15.2
Du Pont ROE breakup			
PAT / Sales	13.9	13.7	15.2
Sales / Avg Total Assets	0.7	0.6	0.6
Avg Total Assets / Avg Eqty	2.0	1.9	1.8
ROE	18.5	15.6	15.5
Other Ratios			
Current Ratio	0.6	1.1	1.6
Debt / Equity	0.3	0.1	0.1
EPS	26.8	26.9	30.5
DPS	4.9	3.2	3.7
Valuation Ratios			
P/E	26.1	28.5	25.2
EV/EBITDA	14.9	16.1	15.3
P/BV	4.3	4.2	3.7

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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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