EQUITY REPORT

Investment Idea

ACCUMULATE

Key Data	
DATE	04/08/2017
Reco Price	370
Target	450
Sector	Textiles
BSE Code	522249
NSE Code	MAYURUNIQ
EPS (March 2017)	17.2
Face Value (Rs.)	5
Market Cap (Cr)	1715
52-week High/Low (Rs)	465/324
Source:BSE	

Shareholding pattern (June 2017)	%
Promoters	61.19
Public	38.81
Total	100.00
Source:ACE equity	

Mayur Uniquoters Ltd (MUL)

Unique play on India's Growth Story

Company Background

Incorporated in 1994, Mayur Uniquoters Ltd (MUL) is a Rajasthan based leading player in production of Poly Urethane (PU)/Poly Vinyl Chloride (PVC) Synthetic or Artificial leathers. These products find application in footwear, automotive, furnishing etc. Besides local markets, the company also has an export presence in the US market. Export revenue contributed 30% to the total revenue in FY17.

MUL is one of the largest manufacturers of synthetic leather in India with an installed capacity of 3.05 million meters per month spread across Jaitpura and Dhodsar near Jaipur, Rajasthan. The company has backward integrated operation to manufacture synthetic knitted fabrics. Knitted fabric is the largest input value-wise after chemicals such as PU and PVC resins.

MUL commands leadership in India's organized PVC synthetic leather market.

Outlook and valuation

At the recommended price of ₹370/-, the stock trades at 16.3x its FY19E EPS of ₹22.7/-. Given diversifying revenue mix, increasing capacity, strong leadership position, foray into the B2C segment, and strong balance sheet, we believe MUL is the best play on the growing synthetic leather market. Hence, we recommend **ACCUMULATE** rating with a target price of ₹450/-, which implies 22% upside from the current level.

Financial Snapshot

Paritcular (Rs Mns)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Net Sales	3,805	4,696	5,063	4,956	4,817	5,382	6,189
EBITDA	690	933	1,018	1,307	1,289	1,422	1,671
EBITDA Margin	18.1%	19.9%	20.1%	26.4%	26.8%	26.4%	27.0%
PAT	436	568	659	773	787	872	1,041
PAT Margin	11.5%	12.1%	13.0%	15.6%	16.3%	16.2%	16.8%
EPS (Rs)	10.1	13.1	15.3	16.7	17.2	19.0	22.7
DPS (Rs)	2.2	4.2	0.6	0.7	1.0	1.1	1.3
D:E	0.2	0.3	0.1	0.1	0.0	0.1	0.1
P/E (x)	13.4	32.5	34.5	29.8	22.1	19.2	16.3
ROE (%)	36.8%	35.3%	23.3%	23.0%	20.4%	18.7%	19.4%
ROCE (%)	32.3%	31.1%	29.3%	23.3%	27.7%	25.4%	26.0%
Source: Company, ACMIIL Research							

Investment Rationale

India's largest organized PVC based synthetic leather maker

Local synthetic leather industry is highly fragmented in nature with unorganized market accounting for 50% share. Currently, synthetic leather accounts for 80% of the total leather product manufacturing in India. Synthetic leather made by coating PVC on fabric is around five times cheaper than natural leather. Thus, it is rapidly finding replacement in many industries. Better technology and innovation has given synthetic leather a similar look and feel as natural leather. Environmental issues and ban on slaughtering animals is further aiding the demand of PVC/synthetic leather. The major end-use industries of synthetic leather are footwear (50%), automotive (30%), furnishing (10%), and others (10%) (includes clothing, bags, purses, and wallets).

Analyst

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Major organised PVC synthetic players in India

Company	PVC leather capacity (linear million meters/ month)
Mayur Uniquoters Ltd	3.05
Marvel Vinyls	1.7
Polynova Ind	1
Fenoplast Ind	0.5
Jasch Ind	0.3

Source: Company, ACMIIL Research

With a capacity of 3.05mn linear meters per month spread across Jaitpura and Dhodsar near Jaipur, Rajasthan, MUL commands a leadership position in India's organised PVC synthetic leather market. In the organized space, MUL competes with players such as Jasch Industries, Responsive Industries, Fenoplast, Prabhat Industries, Polynova, and Marvel Vinyls. MUL has the largest installed capacity with product application across different user industries. The company supplies to all major organized players in India's footwear and auto OEM market.

Marquee list of Clients

User Industries	Key Clients
Footwear	Bata, Relaxo, Liberty, Lehar, VKC, Paragon
Local Auto OEMs	Maruti, Tata, M&M, Honda, Hyundai, Nissan, Sonalika
Export Auto OEMs	Ford & Chrysler
Auto Replacement & Others	Multiple Mid and Small Size companies

Source: Company, ACMIIL Research

The market size of India's synthetic leather industry is expected to double (`90bn-100bn) in the next five years. We believe due to its diversified presence across user industries, MUL is set to benefit significantly on the back of:

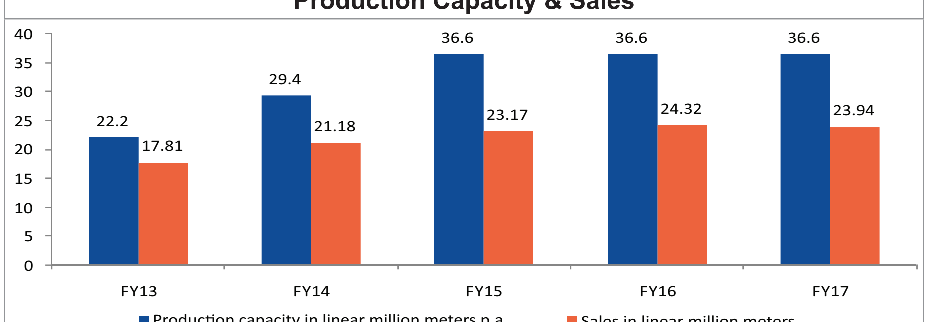
- Increasing demand from automotive and footwear sectors
- Expansion of furniture/interior furnishing industry
- Rising consumption and purchasing power of consumer

Footwear segment to benefit from incremental expansion and positive GST impact

India is the world's second-largest footwear maker after China. The local footwear market is dominated by unorganized players who account for nearly 70-75% of the total market, with only 10-12 organised players contributing the rest. MUL offers products for various parts of footwear such as shoe uppers, show lining, and insoles. These products find application in formal shoes and boots, sports shoes, sandals, slippers, and high-end women's footwear. The company is a major supplier to leading footwear manufacturers such as Bata, Relaxo, Paragon, Liberty, Action, and VKC Group.

In the past few years, the company has successfully expanded its PVC leather capacity from 1.40 linear million meters/ month in FY10 to now 3.05 linear million meters/month in FY17. Currently, MUL is further expanding its PVC leather capacity by 0.10 million meters/month at the Mysore facility, since major footwear companies such as Bata and VKC Group are situated down south. Further, numerous international brands are using PU leather in garments / footwear and ladies' purses and bags, and are coming to India to resource their products, which will lead to a rise in demand for PU. Keeping its growth strategy in mind, MUL is in the process of setting up a PU leather plant at Gwalior, Madhya Pradesh of 0.7 million linear meters per month. For incremental capacity expansion, the company would incur capex worth ₹150cr over FY17-FY19. We believe this incremental project will aid substantial volume growth FY19 onwards.

Production Capacity & Sales



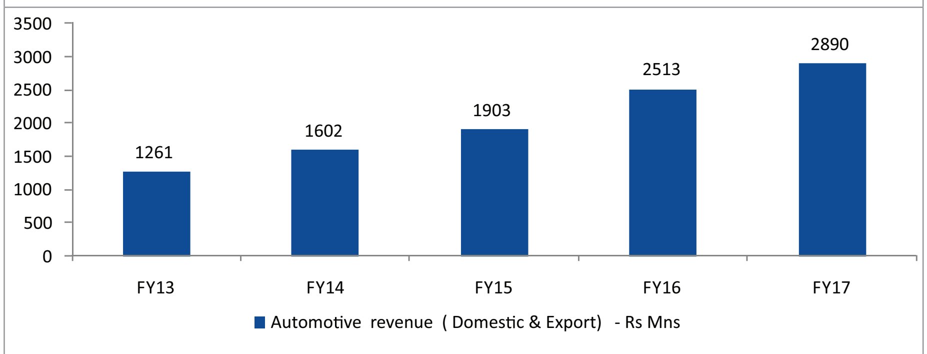
Source: Company, ACMIIL Research

The footwear business contributed 38% to total revenue during FY17 compared with 44% in FY16. During FY17, the footwear business suffered temporarily due to demonetization, but demand has started to revive and the management expects normalcy to return FY18 onwards. GST council has levied only 5% taxes for footwear below ₹500, with the rest charged 18%. With GST implementation, we believe the shift from the unorganized to organized market is a certainty. Since 70-75% of the footwear market is unorganized, this shift provides substantial business opportunity for MUL. Going ahead, we believe this will aid the company post 15-20% volume growth in the footwear segment owing to incremental expansion and positive GST impact.

Strategic shift to the automobile segment to fuel growth

Automobile seats are another major demand driver for the synthetic leather industry. During FY17, automotive business contributed 38% of the revenue share. Currently, the company has 35-37% of market share in the automotive business, which depicts its market presence and leadership position in the industry. During FY17, the company has added nine local auto OEM customers under its kitty. In the local market, MUL supplies to leading OEMs such as Maruti, Mahindra, Tata Motors, ISUZU, Honda, LML Vespa, Suzuki, Sonalika Tractor, Sharda Motors, Ford (India), General Motors (India), Renault, Volkswagen, Bajaj, Piaggio, and Swaraj. MUL enjoys leadership position in the auto replacement market. We believe local PV market is expected to see healthy growth due to rising local demand and higher exports.

Atuomotive Revenue



Source: Company, ACMIIL Research

Further, due to lucrative export market, MUL has been chasing export OEM business since the past few years. Fortunately, the company has managed to acquire customers such as Ford & Chrysler Corporation of US. MUL is India's only player to enter the US auto OEM market (for seating fabric), and has been supplying for the past four years. To grease the wheels of export business further, MUL has set up a warehouse in Mexico and formed a fully-owned subsidiary in the US. We believe this has given a valuable foothold for the company to enter the global market, which is estimated at $40bn. The big 5-6 OEMs buy synthetic leather worth more than ₹500cr every year, translating into an addressable market opportunity of ₹4000cr. Currently, MUL is in talks with European OEMs clients such as Mercedes Benz and Volkswagen for future alliances and expects exports to start FY19 onwards. MUL's entry into the European OEM market would prop up its list of international clients. We believe this will lead to margin improvement and cost optimization in the coming years. During FY17, the company's export OEM business contributed 22% to the total revenue. It expects 12-15% growth from overall automotive sector, going ahead, which would reduce dependency on the footwear segment.

Furnishing segment – a promising new growth area

Apart from footwear and automotive market, synthetic leather is also used in furnishing products. We believe rising disposable incomes and increasing aspiration of the young generation to spend on home improvement products offers tremendous growth potential. To tap this potential, MUL has planned to set up a distribution chain across India. The company has opened its first store in Delhi and intends to open in Surat and Mumbai as well. MUL is planning to ramp-up pan-India presence by appointing ~50 distributors over the next 2-3 years with at least one distributor in each state along with 100 retailers over the next three years. Further, the company exports fabric for furnishing and lifestyle products such as bags, jackets, and furniture upholstery to countries such as Spain, Middle East, Europe, and Sri Lanka. Being primarily a B2B player, the company is entering a B2C business model to cater to this highly fragmented market. We believe B2C model is expected to fetch better realisations and higher operating margin. During FY17, the furnishing business contributed 22% of revenue share compared with 15% in FY16. We believe the furnishing market can be another major growth driver for the company over the next few years.

Strong financial performance and debt-free status

Mayur Uniquoters is the market leader in India's PVC synthetic leather industry. During FY17, company's top line was down 3% due to the impact of demonetisation on the footwear segment. In the last five years (FY13-FY17), the company's revenue and profitability grew at a CAGR of 7% and 16% respectively. Moreover, operating margin during the same period has improved from 18% in FY13 to 26.8% in FY17. Operating margin improved substantially as sales of high-margin segments such as export auto OEM, local auto replacement, and general exports saw significant growth during the past few years. Further, the company started producing knitted fabric in-house, which resulted into lower rejections and better margin. In the last five years, the company has maintained a strong balance sheet position with almost zero long-term debt as on Mar 31, 2017. With the current capacity expansion project, MUL is likely to keep its debt-to-equity well under control. Going ahead, we believe the company's revenue and profitability will grow at a CAGR of 13% and 15% respectively over FY17-FY19E.

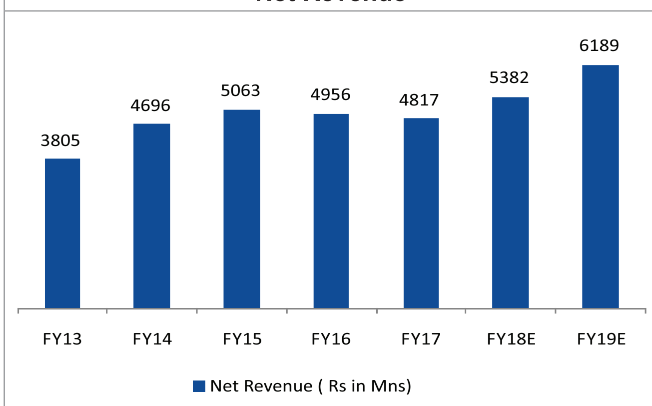
Risk and Concerns

1. Inability to pass on rise in raw material pricing, which may impact operating margin
2. Delay in commissioning of new PU/PVC project, which may impact volume growth
3. Global economic slowdown

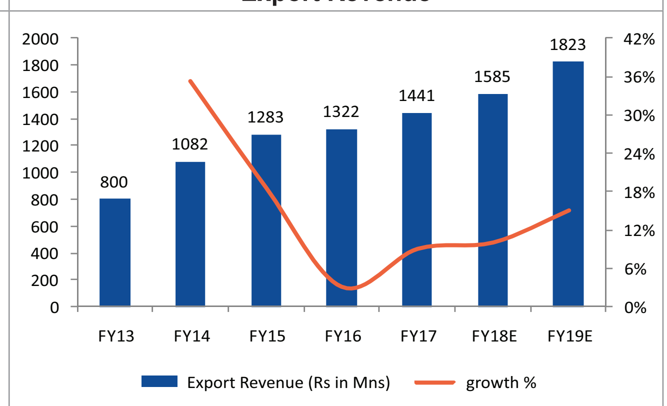
Outlook and valuation

At the recommended price of ₹370/-, the stock trades at 16.5x its FY19E EPS of ₹22.7/-. With changing consumer lifestyle, rising disposable income & increasing aspiration from youth, we believe, conumption story to drive domestic growth & this will augur well for domestic focus player like MUL in long term. Further, with implementation of GST, we believe, organized player like Mayur Uniquoters to benefit the most, owing to level playing field. Hence, we recommend **ACCUMULATE** rating with a target price of ₹450/-, which implies 22% upside from the current level.

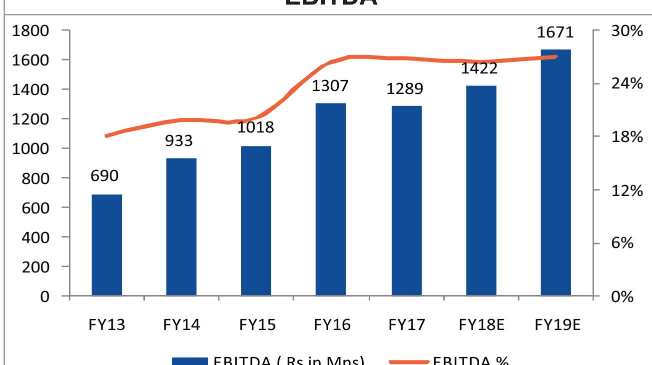
Net Revenue



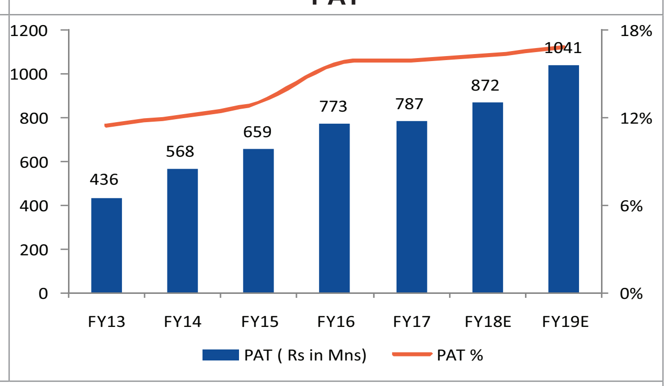
Export Revenue



EBITDA



PAT



Source: Company, ACMIIL Research

Income Statement

Particluar (Rs mns)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Net Sales	3805	4696	5063	4956	4817	5382	6189
YoY Growth	19.9%	23.4%	7.8%	-2.1%	-2.8%	11.7%	15.0%
EBITDA	690	933	1018	1307	1289	1422	1671
EBITDA Margin	18.1%	19.9%	20.1%	26.4%	26.8%	26.4%	27.0%
Depreciation	52	70	119	161	167	183	195
EBIT	638	863	899	1146	1122	1239	1477
Interest	24	43	26	34	24	27	31
Add: Other Income	27	17	59	58	74	86	103
PBT	641	837	932	1170	1172	1297	1549
Tax	205	269	273	397	385	426	508
Tax Rate	32%	32%	29%	34%	33%	33%	33%
PAT	436	568	659	773	787	872	1041
PAT Margin	11.5%	12.1%	13.0%	15.6%	16.3%	16.2%	16.8%
EPS (Rs)	10.1	13.1	15.3	16.7	17.2	19.0	22.7

Source: Company, ACMIIL Research

Balance Sheet

Particluar (Rs mns)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Share Capital	108	108	811	231	229	229	229
Reserves & Surplus	1076	1503	2016	3125	3620	4431	5403
Networth	**1184**	**1611**	**2827**	**3356**	**3849**	**4660**	**5632**
Long term debt	82	216	189	141	84	175	211
Short term debt	164	202	235	111	28	58	70
Total Debt	**246**	**418**	**424**	**252**	**112**	**233**	**282**
Current Liabilities & provisions	534	689	588	485	485	570	685
Others	171	284	272	258	270	302	347
Total Liablilities	**2135**	**3002**	**4111**	**4351**	**4716**	**5765**	**6946**
Net Block	736	1243	1426	1424	1323	1573	1823
Non Current Investment	1	1	1	0	11	11	11
Other non current assets	47	20	14	13	60	67	77
Cash & Cash Equivalent	243	233	1024	1162	1406	1947	2586
Inventories	442	638	561	649	835	936	1034
Debtors	564	671	907	987	969	1106	1272
Other cuurent assets	34	76	92	60	58	65	75
Short term loans & advances	68	125	86	56	54	60	69
Total Assets	**2135**	**3007**	**4111**	**4351**	**4716**	**5765**	**6946**

Source: Company, ACMIIL Research

Cash Flow

Particular (Rs Mns)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
PBT	641	837	932	1170	1172	1297	1549
Tax paid	205	269	273	397	385	426	508
Dep & amortization	52	70	119	161	167	183	195
Working capital changes	154	58	876	558	452	475	428
Net Cash flow from Operation	334	580	-98	376	502	580	807
Cash from investments							
Capital expenditure	297	577	302	159	66	433	445
Sale/purchase of investments	0	0	0	-1	11	0	0
Changes in Others	25	-27	-6	-1	47	7	10
Net cash from Investment	322	550	296	157	124	440	455
Cash from financing							
Issue of shares & sh. premium	-111	-141	557	-244	-294	-61	-69
Debt change	22	134	-27	-48	-57	91	36
Other changes	0	0	0	0	0	0	0
Net cash from financing	-89	-7	530	-292	-351	30	-33

Source: Company, ACMIIL Research

Ratio Analysis

Ratio Analysis	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Proftibalilty ratio							
ROE	36.8%	35.3%	23.3%	23.1%	20.4%	18.7%	19.4%
ROCE	32.3%	31.1%	29.3%	23.3%	27.7%	25.4%	26.0%
RoA	20%	19%	16%	18%	17%	15%	15%
Valuation ratio							
P/E	32.5	34.5	29.8	23.2	22.1	19.2	16.3
P/BV	15	15.2	13.2	13.4	11.2	9.1	7.5
EV/ EBITDA	25.9	26.5	28.9	34.3	33.5	29.3	25.1
EV/ Sales	4.7	5.3	6.3	9.1	8.9	7	6.8
Per Share							
EPS (Rs)	10.1	13.1	15.3	16.7	17.2	19.0	22.7
DPS (Rs)	2.2	4.2	0.6	0.7	1	1.1	1.3
Book Value (Rs)	21.9	29.8	30.1	29.1	33.6	40.7	49.1
Capital Structure Ratios							
D:E	0.2	0.3	0.1	1	0.0	0.1	0.1
Cuurent Ratio	1.6	1.6	1.5	2.4	3.4	4.2	4.4
Qucik ratio	1.4	1.4	2.2	3.2	3.9	4.1	3.9
Turnover Ratio							
Fixed asset turnover (x)	5.2	3.8	3.6	3.5	3.6	3.4	3.4
Debtors Days	54	52	65	73	73	75	75
Inventory days	59	74	63	85	116	115	110
Payable days	56	61	47	38	48	48	48

Source: Company, ACMIIL Research

Investment Idea

ACCUMULATE

Key Data	
DATE	04/08/2017
Reco Price (Rs)	670
Target (Rs)	820
Upside	22%
BSE Code	500260
NSE Code	RAMCOCEM
Face Value (Rs)	1.00
Market Cap (Rs. Cr)	15,450
52-week high / low	750 / 478
Source: BSE	

Shareholding	%
Promoters	42.67
FII	14.52
DII	28.96
Others	13.85
Source: BSE	

The Ramco Cements

Cementing India's Infrastructure Growth

Company Background

Incorporated in 1957, The Ramco Cements (Ramco) is the flagship company of South India based Ramco Group. Initially, the company was named Madras Cements. It is among the top three cement producers in South India with 15% market share. Ramco manufactures ready mix concrete and dry mortar products such as portland cement, blast furnace slag cement, white cement, and pozzolana cement. Production facilities are mostly based in Southern India at Alathiyur, RR Nagar, Ariyalur, Mathodu, Jayanthipuram, Chengalpattu, Kolaghat, Kanchipuram, Salem, Vegaivasal, Vijayawada, and Vizag.

Ramco operates wind farms and established its first at Muppandal in 1993. In 1995, the company installed 69 additional windmills at Poolavadi near Coimbatore. As of March 2017, the total installed windmill capacity is 125.95MW with 235 individual units.

View and Valuation

Ramco is a leading brand of Southern India with prominent market share of about 15%. Due to subdued demand in the past, capacity utilization across regions is low, but in FY18 cement consumption is expected to grow 4-5% to 285-290 mntn which will improve the utilization rate which is currently between 55-70%. Ramco is doing small augmentation for incremental demand particularly in the eastern and northern regions. Robust demand from the east could lead to revenue growth of 13% on CAGR basis over FY18E-22E for Ramco. Taking FY19E EV multiple of 9.76x on EBITDA of Rs.1,845Cr, we arrive at a target price of Rs 820, 22% upside from the recommendation price of Rs.670. We recommend to "**ACCUMULATE**" the stock.

Financial Snapshot

Y/E March (Rs Cr)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Total Revenues	3872	3747	3739	3656	4006	4841	5883
YoY (%)	18.9%	-3.2%	-0.2%	-2.2%	9.6%	20.8%	21.5%
EBITDA	1,046	626	804	1,151	1,229	1,502	1,845
EBITDA (%)	27.0%	16.7%	21.5%	31.5%	30.7%	31.0%	31.4%
PAT	404	115	246	545	665	915	1,181
PAT margin(%)	10.4%	3.1%	6.6%	14.9%	16.6%	18.9%	20.1%
EPS	17	5	10	24	29	40	51
ROE (%)	17.0%	4.7%	9.1%	17.4%	17.5%	19.4%	20.0%
ROCE (%)	8.3%	2.2%	4.8%	11.1%	13.2%	16.6%	17.5%
Book Value/Share	99	103	114	136	165	204	255

Source: Company, ACMIIL Research

Investment Rationale

Market leader with sustainable and splendid infrastructure

Chennai based Ramco manufactures a variety of cement and related products such as dry mix products, concretes, plaster, putty, tile adhesives, and concretes. The company operates through world-class manufacturing units comprising 5 cement plants, 4 satellite grinding plants, 1 packaging unit, and 1 plant each of ready-to-mix concretes and dry mix mortar plant. Total cement capacity is around 12.5 mntn per annum and grinding capacity is 4mn TPA.

Analyst

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Moreover, Ramco's R&D centre helps the company innovate consistently. Ramco caters majorly to Southern India with ~15% market share. Around 45% of total volume demand comes from Tamil Nadu and Karnataka with 23% coming from Andhra Pradesh. Odisha and West Bengal contributes for the balance 32%.

Plant Capacity

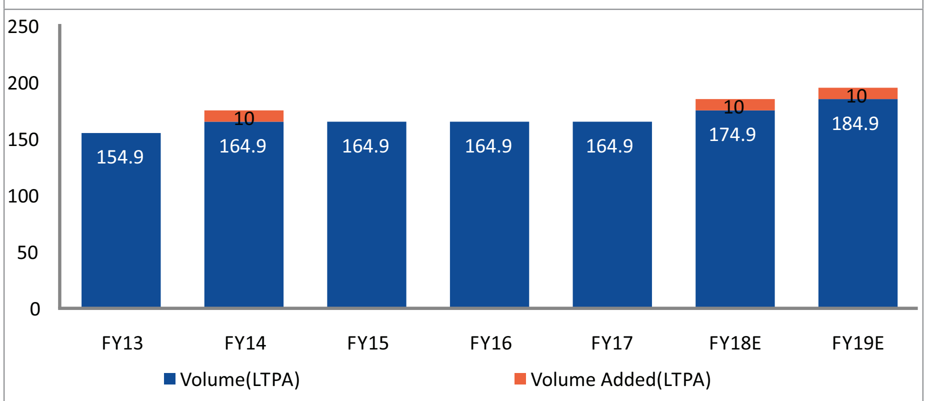
Integrated Units		Grinding Unit	
Location	**Cement capacity (mntn)**	**Location**	**Cement capacity (mntn)**
RR Nagar	2	Chengalpet	0.5
Alathiyur	3.1	Valapady	1.6
Ariyalur	3.5	Kolaghat	1
Mathodu	0.3	Vizag	1
Jayantipuram	3.7		

Source: Company, ACMIIL Research

Expanding its footstep towards Eastern India to accelerate growth

Cement terminal at Kolaghat in West Bengal was commissioned during FY10 to cater to the customers in the eastern India.In FY17, West Bengal market grew 18% to 1.4 mntn per annum and is expected to maintain double-digit demand growth. To fulfill increasing volume demand from eastern, northern, and central India, Ramco is revamping grinding capacity of the plant by doubling it to 2 mntn per annum. Moreover, it is planning to set up a Greenfield project with 1mnt per annum capacity. These plant expansions are expected to be completed in the next 18 months. Currently, products are sold through 800 sales points in West Bengal and Odisha.

Production Capacity



Source: Company, ACMIIL Research

Government's focus on infrastructure to boost cement demand

Infrastructure projects under progress at Andhra Pradesh and Telangana are driving cement demand leading to price improvement. Further, the government's focus on strengthening overall infrastructure through "Housing for All", "100 smart cities", well-built and connected road and railways system, and many more projects lined up is bound to raise pan-India cement demand bringing growth opportunities for cement companies.

De-leveraging

Ramco continues repaying its long-term debts and by end-FY17, the company had only Rs.511Cr of debt on its books compared with Rs.1070.8Cr in FY16. The company plans to be debt-free in the next six months with working capital loan of ~Rs.500 Cr and interest-free debt of Rs.1200Cr being the only debt components, which need to be repaid in 7 years. This would not only improve Ramco's credit rating, but would also better its profit margin.

In-house logistics would trim operating cost

In the last quarter, Ramco increased its stake in Chennai based Lynks logistics Ltd to 45.57%. Further, the company is planning to acquire more stake to become the holding company. This would benefit Ramco since it will get in-house access to logistics services, decreasing freight cost for pan-India supply of cement. Currently, freight is around 18% of net revenue. Moreover, the company is switching to coastal shipping to transport material between its plants based at Vizag and West Bengal.

One of the most cost-efficient cement manufacturers with strong financials

Ramco is one of the most cost-efficient cement producers in southern India. For FY17 its total revenue was Rs.4006Cr, up 10% YoY backed by strong volume growth of 16% to 8.35 mntn. Due to higher spending on advertisement and sales promotions, operating margin reduced to 30.7% (31.5% in FY16) with EBITDA of Rs.1229Cr. Lower depreciation cost of Rs.267Cr and lower finance cost of Rs.105Cr helped achieve good profit of Rs.665Cr at a margin of 16.6%. Timely repayment of debt has improved Ramco's debt-to-equity ratio to 0.11 times.

Wind farm output improved by 67% YoY to 2,747 lac units. Tamil Nadu wind farms are the major generator with 96.7% (2,658 lac units) of total production and rest 3.3% (89 lac units) is from Karnataka based farms. Out of the units generated in Tamil Nadu, 308 lakh units were consumed in-house and balance 2,350 lakh units were sold to Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) for a value of Rs. 70.41 Cr. The units generated in Karnataka were used at Mathodu Cement Plant.

Ramco has thermal power facilities, which supply renewable energy for cement manufacturing at its various plants. During FY17, 6 MW thermal power project at Alathiyur was commissioned. The 6 MW project at Jayanthipuram is scheduled to be commissioned in FY18 after which the aggregate capacity of the thermal power plants would reach 175 MW. In FY17,only 478 lac units were sold from surplus generation compared with 2417 lac units in FY16 as TANGEDCO's demand was low. Lower realization for the power sold coupled with the decrease in units sold resulted in lower profit from power plant operations.

Industry Overview

Cement

India is the second largest cement producer in the world with 6.7% of world's cement production with nearly 435 mntn of cement production capacity. The cement production capacity is estimated to touch 550 mntn by FY20. Of the total capacity, 98% lies with the private sector and the rest with the public sector. The top 20 companies account for around 70% of the total production. A total of 188 large cement plants together account for 97% of the total installed capacity in the country, while 365 small plants make up the rest. Although the industry has a total capacity of 435 mntn per annum, only 280 mntn was utilized for meeting local demand and 5 mntn for exports. Of the total 188 large cement plants in India, 77 are inAndhra Pradesh, Rajasthan, and Tamil Nadu.

In March 2017, cement volume growth recovered, growing 17.5% on monthly basis to 25.2 mntn According to ICRA, cement demand growth is expected to recover to around 4-5% during FY18, driven by a pick-up in the housing and infrastructure segments. Higher rural credit and increased allocation for rural, agricultural, and allied sectors, which are likely to boost rural demand, including the demand for rural housing, are significant contributors to the overall cement demand mix. It is estimated that around two million houses are constructed yearly in the country. Although cement comprises 15-20% of the overall cost for an apartment, it is about a third for individual houses.

In the Asia-pacific region, India levies the highest tax on cement, leading to subdued demand. On an average,the industry is operating at 70% capacity utilization. Post GST, 28% tax rate will be levied on cement, which is bit higher compared with the current rate of 25-26%. However, this would not impact much in the present scenario due to rising demand. Ongoing monsoon, labour shortage, and ambiguity regarding GST would hamper for a while, since good monsoon would slow down the demand whereas new tax regime would affect volume. On the other hand, the government of India is focused strongly on infrastructure development to boost economic growth and is aiming to create 100 smart cities in India. The government intends to expand the capacity of Indian railways and the facilities for handling and storage to ease the transportation of cement and reduce transportation costs. These measures would lead to increased construction activity, which would boost cement demand.

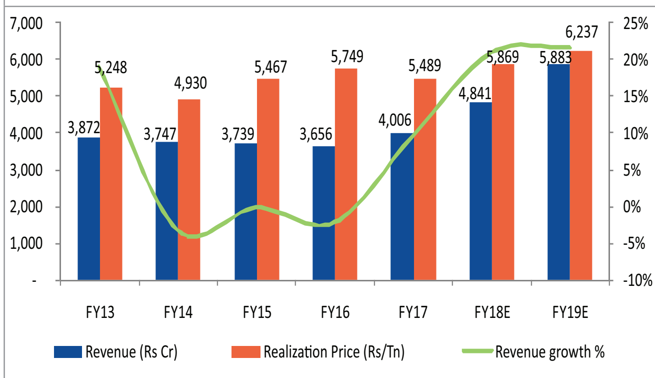
Risk and Concerns

- **Increase in input prices:** Any upward price movement in raw material such as coal and limestone would impact the operating margin
- **Timely completion of projects:** If government infrastructure plans are not completed within the set time limit, cement demand would be lower than estimated.

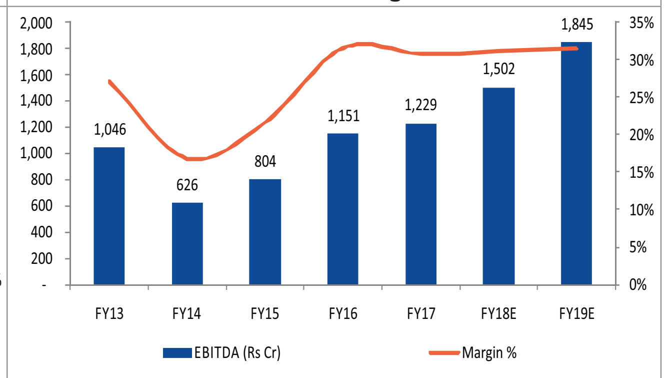
View

Government's emphasis on boosting infrastructure through initiatives such as Make in India and 100 Smart Cities would boost cement demand, which augurs well for Ramco. Taking FY19E EV multiple of 9.76x on EBITDA of Rs.1845Cr, we arrive at a target price of Rs.820, 22% upside from the recommendation price of Rs.670. We recommend to "**ACCUMULATE**" the stock.

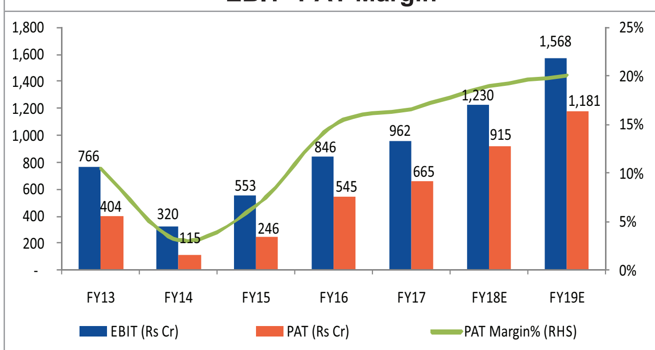
Revenue Growth



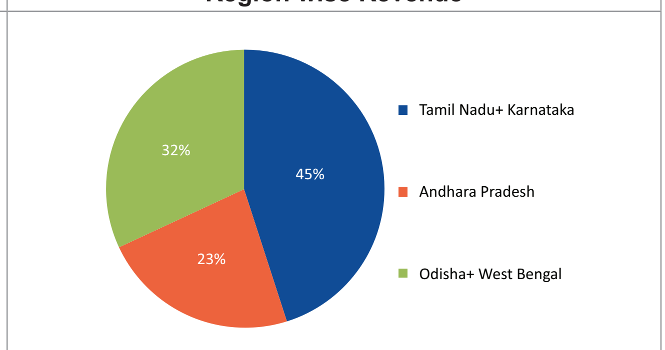
EBITDA Margin



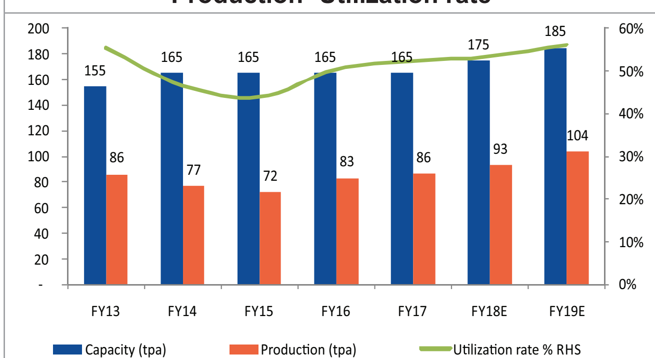
EBIT- PAT Margin



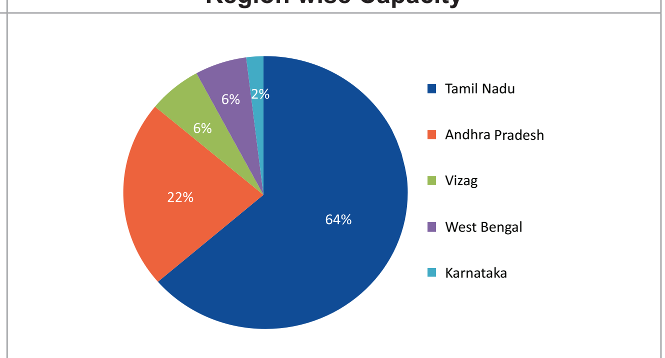
Region wise Revenue



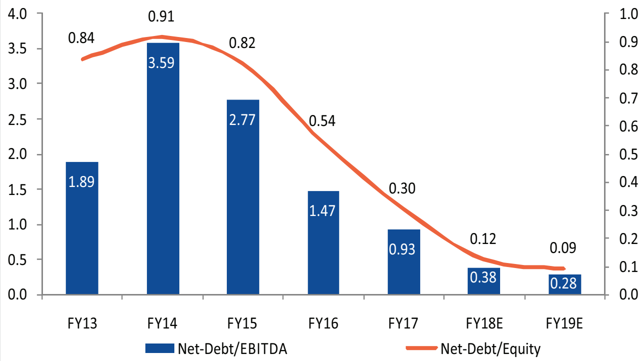
Production- Utilization rate



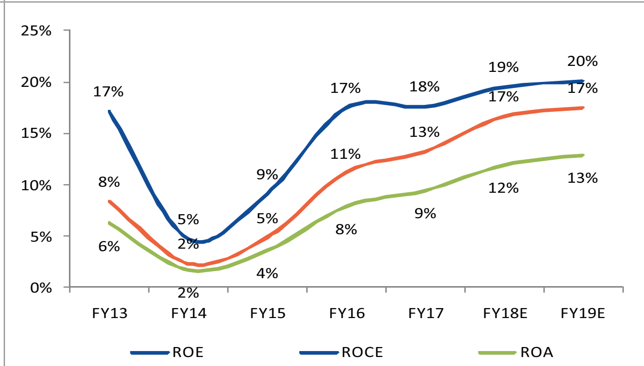
Region wise Capacity



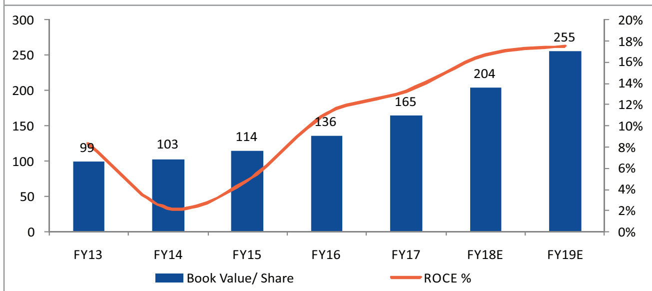
Debt Ratios



ROE -ROCE-ROA



Book Value



Source: Company, ACMIIL Research

Income Statement

Y/E March (Rs Cr)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Total Revenue	**3872**	**3747**	**3739**	**3656**	**4006**	**4841**	**5883**
YoY growth %	18.9%	-3.2%	-0.2%	-2.2%	9.6%	20.8%	21.5%
EBITDA	1046	626	804	1151	1229	1502	1845
EBITDA Margin %	27.0%	16.7%	21.5%	31.5%	30.7%	31.0%	31.4%
Depreciation	280	306	251	305	267	272	277
EBIT	**766**	**320**	**553**	**846**	**962**	**1230**	**1568**
Interest	178	188	195	183	105	47	42
Profit Before Tax	588	132	358	663	857	1183	1526
Tax	184	17	114	132	203	267	345
PAT	**404**	**115**	**246**	**545**	**665**	**915**	**1181**
Net Profit Margin %	10.4%	3.1%	6.6%	14.9%	16.6%	18.9%	20.1%
EPS (Rs)	17	5	10	24	29	40	51

Source: Company, ACMIIL Research

Balance Sheet

Y/E March (Rs Cr)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Share Capital	24	24	24	24	24	23	23
Reserves & Surplus	2,347	2,435	2,696	3,109	3,772	4,687	5,868
Net worth	**2,371**	**2,459**	**2,720**	**3,133**	**3,795**	**4,710**	**5,891**
Long term debt	1,393	1,520	1,726	1,059	511	1	1
Short term debt	588	724	500	631	635	575	512
Total Debt	**1,981**	**2,244**	**2,226**	**1,690**	**1,146**	**576**	**513**
Current liabilities & Provisions	1,025	981	1,287	1,403	1,391	1,621	1,896
Others	1,095	1,161	704	717	737	802	869
Total Equity & Liabilities	**6,472**	**6,845**	**6,938**	**6,944**	**7,071**	**7,711**	**9,170**
Net Block	4,750	5,003	5,358	5,305	5,330	5,440	5,557
Non- current investments	266	283	168	170	184	222	270
Cash	54	45	88	91	120	352	1,331
Inventories	595	686	522	550	577	684	816
Debtors	301	304	382	472	555	657	783
Other current assets	12	9	262	200	144	174	211
Short term loans & advances	279	175	20	21	27	37	51
Current assests	1,240	1,219	1,274	1,334	1,423	1,905	3,193
Others	216	340	138	135	134	143	151
Total Assets	**6,472**	**6,844**	**6,938**	**6,944**	**7,071**	**7,711**	**9,171**

Source: Company, ACMIIL Research

Cash Flow Statement

Y/E March (Rs Cr)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Profit/(Loss) before Tax	588	131	358	663	857	1,183	1,526
Adjustments	456	493	461	482	366	47	42
Op Profit BeforeWorking Capital	1,044	624	819	1,145	1,223	1,230	1,568
Working capital changes	-228	-75	182	92	82	9	4
Taxes (Paid)	-115	-40	-69	-148	-187	-267	-345
Net Cash from Operating Activity	**701**	**509**	**932**	**1,089**	**1,118**	**972**	**1,227**
Tangible Assets	-399	-588	-439	-298	-305	-110	-116
Purchase/(Sale) of Investment	0	0	1	25	0	-47	-56
Other investing activities	17	16	-39	12	25	-30	-37
Net Cash from Investing Activity	**-383**	**-573**	**-477**	**-261**	**-280**	**-188**	**-209**
Proceeds from Borrowings	-55	259	-176	-657	-555	-570	-63
Interest Paid	-165	-178	-232	-164	-110	-47	-42
Other Financing Activities	-69	-28	-28	-129	0	65	66
Net Cash from Financing Activity	**-289**	**53**	**-436**	**-950**	**-665**	**-551**	**-39**
Net Change in Cash	30	-11	18	-122	172	232	979
Opening Cash Balance	20	50	40	-63	-184	120	352
Cash Credit	4	5	5	275	132	0	0
Closing Cash Balance	**54**	**44**	**63**	**91**	**120**	**352**	**1,331**

Source: Company, ACMIIL Research

Ratio Analysis

Y/E March (Rs Cr)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
EPS	17	5	10	24	29	40	51
Book Value per share	99	103	114	136	165	204	255
Valuations (x)							
P/E	11.2	71.0	37.9	23.1	23.2	17.6	13.7
P/BV	1.9	3.3	3.4	4.0	4.1	3.4	2.7
EBITDA / tn	1251.0	727.7	1049.2	1599.0	1472.5	1738.1	1975.5
EV/tn	39.2	63.0	69.7	86.1	98.1	97.2	97.4
PROFITABILITY RATIOS							
RoCE (%)	8.3%	2.2%	4.8%	11.1%	13.2%	16.6%	17.5%
ROE (%)	17.0%	4.7%	9.1%	17.4%	17.5%	19.4%	20.0%
ROA (%)	6.2%	1.7%	3.6%	7.8%	9.4%	11.9%	12.9%
MARGIN RATIOS							
EBITDA margin (%)	27.0%	16.7%	21.5%	31.5%	30.7%	31.0%	31.4%
EBIT margin (%)	19.8%	8.5%	14.8%	23.1%	24.0%	25.4%	26.6%
PBT margin (%)	15.2%	3.5%	9.6%	18.1%	21.4%	24.4%	25.9%
PAT margin (%)	10.4%	3.1%	6.6%	14.9%	16.6%	18.9%	20.1%
TURNOVER RATIOS							
Payable turnover	3.7	3.9	2.9	2.7	2.7	2.8	2.9
Days payable	98.5	93.1	125.0	133.2	136.1	131.1	126.1
Receivables turnover	12.9	12.3	9.8	7.7	7.2	7.4	7.5
Days receivable	28.4	29.6	37.3	47.1	50.6	49.6	48.6
Inventory turnover	0.9	1.0	1.3	1.1	1.2	1.2	1.2
Days Inventory	409.6	362.7	279.9	340.9	306.6	301.6	296.6
SOLVENCY RATIOS							
Debt -EBITDA	1.9	3.6	2.8	1.5	0.9	0.4	0.3
Debt-Equity ratio	0.8	0.9	0.8	0.5	0.3	0.1	0.1
Interest Coverage ratio	4.3	1.7	2.8	4.6	9.2	26.2	37.5

Source: Company, ACMIIL Research