

14 February 2013

## Ramco Industries

*Despite subdued revenue growth, margins unaffected; Buy*

Rating: **Buy**

Target Price: ₹93

Share Price: ₹64

### Key takeaways

**8.1% sales growth.** Ramco Industries reported ₹1.78bn revenues in 3QFY13 (up 8.1% yoy), 6% below our estimated ₹1.9bn. Growth was driven by increased sales in its textile business, which grew 75% (to ₹0.37bn) while its building products division declined 2% (to ₹1.36bn). Its ACS capacity operated at 86% utilisation in FY12 and is likely to reach optimum utilisation levels in FY13. We expect its domestic operations to post a 12% CAGR in revenue over FY12-15.

**Textile division reported strong performance.** Its textiles division recorded a 75% yoy rise in sales. Its EBIT margin has improved 1,514bps yoy, to 1.3%. This robust performance was backed by a slight increase in capital employed (to ₹828m, up 7%).

**EBITDA margin at 12.4%, PAT up 31%.** With strong sales growth, the EBITDA margin improved 5bps, to 12.4% yoy, but was down 271bps qoq, as raw material cost (as percent of sales) has risen 353bps. PAT was up 31% yoy; for 9MFY13, it climbed 15.2%.

**Expanding in Sri Lanka.** To cater to rising rural demand for ACS in Sri Lanka, Ramco set up, in Mar'12, another 0.12m tpa plant, taking total capacity there to 0.24m tpa. The Sri Lankan operation posted a 15% CAGR in revenue over FY06-12, which could rise to 25% in FY12-15.

**Our take.** Rising rural incomes on account of government schemes for the rural population would boost growth. We assign a 4x PE to FY14 EPS and value its equity investments at a steep discount to the present value to derive a price target of ₹93. At the ruling price, the stock trades at PE of 5.8x FY14 and 5x FY15e EPS. We believe the strong cash flows would take care of future expansions, keeping debt-equity in check. **Risks.** Rise in input costs and further deterioration in the cotton yarn business (contributing 15% to revenue).

Key data	RAMCO IN / RAMCO.BO
52-week high / low	₹79 / ₹4
Sensex / Nifty	19608 / 5933
3-m average volume	US\$0.1m
Market cap	₹5.5bn / US\$102m
Shares outstanding	86.7m

Shareholding pattern (%)	Dec '12	Sept '12	Jun '12
Promoters	53.9	53.9	53.9
- of which, Pledged	-	-	-
Free Float	46.1	46.1	46.1
- Foreign Institutions	-	-	-
- Domestic Institutions	6.3	6.4	6.6
- Public	39.8	39.7	39.5

Financials (YE Mar)	FY13e	FY14e
Sales (₹m)	9,736	10,725
Net profit (₹m)	849	1,067
EPS (₹)	9.8	12.3
Growth (%)	12.2	25.7
PE (x)	7.3	5.8
PBV (x)	1.0	0.9
RoE (%)	16.8	18.3
RoCE (%)	14.2	16.6
Dividend yield (%)	2.1	2.7
Net gearing (%)	31.5	18.2

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY12	3QFY13	% yoy	9M FY12	9M FY13	% yoy
Sales (₹m)	1,654	1,788	8.1	4,981	6,159	23.7
EBITDA (₹m)	204	221	8.6	710	893	25.9
EBITDA margin (%)	12.3	12.4	5 bps	14.2	14.5	25 bps
Interest (₹m)	60	78	29.7	164	215	31.2
Depreciation (₹m)	87	83	(5.0)	252	248	(1.8)
Other income (₹m)	32	49	56.5	146	98	(33.1)
PBT (₹m)	87	109	24.9	440	529	20.2
Tax (₹m)	16	16	(1.8)	76	110	44.2
Tax rate (%)	18.7	14.7	(399) bps	17.3	20.8	345 bps
PAT (₹m)	71	93	31.0	364	419	15.2

Source: Company

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## Quick Glance – Consolidated Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net sales	6,723	7,981	9,736	10,725	11,722
Sales growth (%)	21.2	18.7	22.0	10.2	9.3
- Op. expenses	5,476.4	6,651.4	8,265.7	8,987.8	9,799.4
<b>EBIDTA</b>	<b>1,247</b>	<b>1,330</b>	<b>1,470</b>	<b>1,737</b>	<b>1,922</b>
EBITDA margins (%)	18.5	16.7	15.1	16.2	16.4
- Interest	207	246	253	198	143
- Depreciation	305	352	390	433	447
+ Other income	88	238	262	262	262
- Tax	217	216	239	301	351
Effective tax rate (%)	26.3	22.0	22.0	22.0	22.0
Reported cons. PAT	607	769	849	1,067	1,243
FDEPS (₹/share)	7.0	8.9	9.8	12.3	14.3
Adj. FDEPS (₹/share)	7.0	8.7	9.8	12.3	14.3
Adj. FDEPS growth (%)	9.1	24.7	12.2	25.7	16.5
DPS (₹/share)	0.9	1.1	1.5	1.9	2.5
CEPS (₹/share)	10.2	12.8	14.3	17.3	19.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	87	87	87	87	87
Reserves & surplus	3,972	4,607	5,304	6,179	7,168
Shareholders' fund	4,058	4,694	5,391	6,265	7,255
Debt	2,518	2,551	2,051	1,551	1,051
Minority interests	-	-	-	-	-
Deferred Tax Liab (net)	248	237	237	237	237
<b>Capital employed</b>	<b>6,824</b>	<b>7,482</b>	<b>7,679</b>	<b>8,053</b>	<b>8,543</b>
Net Fixed assets	2,712	3,172	2,914	2,731	2,384
Investments	1,976	1,976	1,976	1,976	1,976
Working capital	1,619	2,016	2,438	2,938	3,178
Cash	517	318	351	408	1,005
<b>Capital deployed</b>	<b>6,824</b>	<b>7,482</b>	<b>7,679</b>	<b>8,053</b>	<b>8,543</b>
Net Debt	2,001.2	2,233.7	1,700.4	1,143.3	46.5
Net Debt/Equity (%)	49.3	47.6	31.5	18.2	0.6
W C turn (days)	82.9	83.1	83.5	91.5	95.2
Book Value (₹/share)	46.8	54.1	62.2	72.3	83.7

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

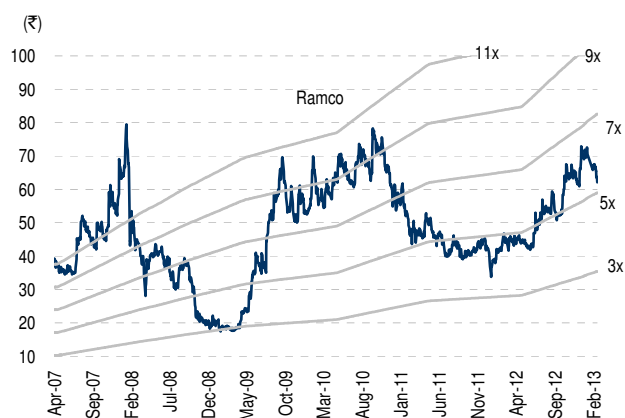
Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Consolidated PAT	607	769	849	1,067	1,243
+Non-cash Items	281	341	390	433	447
Cash profit	887	1,110	1,239	1,500	1,690
- Incr./ (Decr.) in WC	183	397	422	500	240
Operating cash-flow	705	713	817	1,000	1,450
-Capex	453	812	131	250	100
Free cash-flow	252	(99)	685	750	1,350
-Dividend	91	111	152	193	254
+ Equity raised	-	-	-	-	-
+ Others	(10.5)	(22.3)	(0.0)	0.0	0.0
+ Debt raised	41	33	(500)	(500)	(500)
-Investments	(0)	-	-	-	-
Net cash-flow	192	(199)	33	57	597
+Opening cash	325	517	318	351	408
Closing cash	517	318	351	408	1,005

Source: Company, Anand Rathi Research

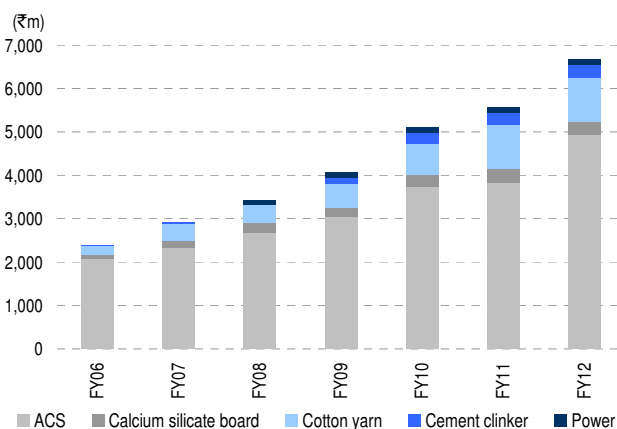
**Fig 4 – Ratio analysis @ ₹64**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
P/E (x)	10.1	8.0	7.3	5.8	5.0
Cash P/E (x)	6.3	5.0	4.5	3.7	3.3
EV/EBITDA (x)	4.5	4.4	3.6	2.7	1.9
EV/Sales (x)	0.8	0.7	0.5	0.4	0.3
P/B (x)	1.4	1.2	1.0	0.9	0.8
RoAE (%)	15.9	17.6	16.8	18.3	18.4
RoACE (%)	14.4	13.7	14.2	16.6	17.8
Dividend yield (%)	1.3	1.5	2.1	2.7	3.5
Dividend payout (%)	15.0	14.4	17.9	18.1	20.4
Debt/Equity (x)	0.6	0.5	0.4	0.2	0.1
Receivable days	24.2	25.6	25.0	26.0	26.0
Inventory days	75.5	69.8	68.0	70.0	70.0
Payable days	66.9	59.7	58.0	58.0	58.0
Working capital days	82.9	83.1	83.5	91.5	95.2
Fixed asset T/O (x)	2.5	2.7	3.2	3.8	4.6

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – FY12, segment-wise revenue break-up (standalone)**


Source: Company

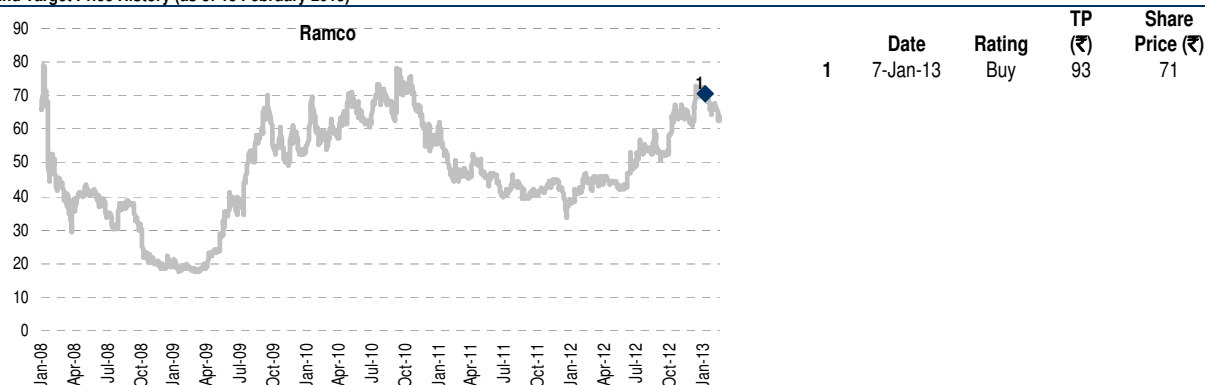
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