

Stock Update

Regional challenges with higher operational expenses affect profitability in Q1FY18

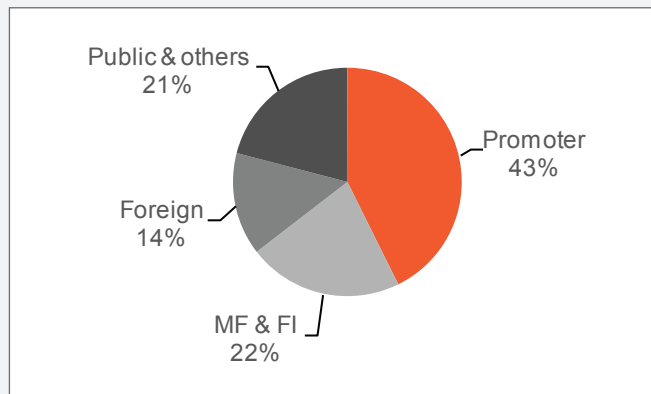
The Ramco Cements

Reco: Hold | CMP: Rs689

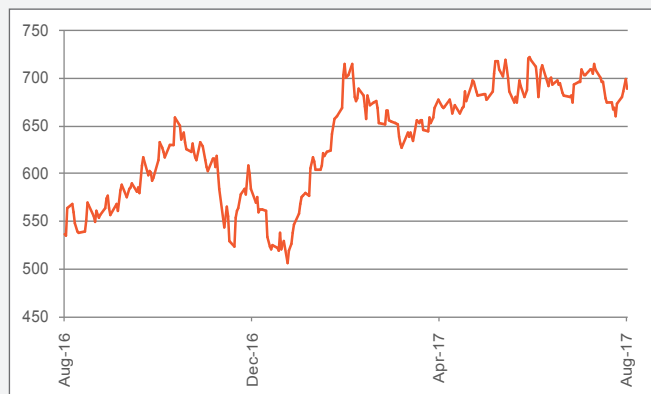
Company details

Price target:	Rs750
Market cap:	Rs16,250 cr
52-week high/low:	Rs750/479
NSE volume: (No of shares)	2.3 lakh
BSE code:	500260
NSE code:	RAMCOCEM
Sharekhan code:	RAMCOCEM
Free float: (No of shares)	13.5 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.1	2.1	-0.2	26.9
Relative to Sensex	-4.0	-6.6	-14.1	7.9

Key points

- Challenges in the southern region with erosion of low fuel cost advantage affects operational performance:** The Ramco cements posted 6.7% YoY growth in net sales (net of excise duty) to Rs1,029 crore during Q1FY2018 on account of a 4.1% YoY growth in cement volume while the blended realization was flat YoY for the quarter. The volume growth was impacted due to drought and sand scarcity in Tamil Nadu while the company witnessed growth in Eastern region. The Operating Profit Margin (OPM) for the quarter contracted by 252basis points YoY to 28.2% on account of higher power & fuel cost (up 25% YoY on per tonne basis due to exhaustion of low cost pet coke inventory) and higher freight expenses (up 8.4% YoY on per tonne basis). Hence, the blended EBITDA per tonne for the quarter declined 19.8% YoY to Rs989. Decline in interest cost (down 47% YoY, earlier repayment of borrowings) and lower effective tax rate (down 79bps YoY) resulted in an almost flat PAT YoY at Rs156 crore.
- Capacity to be expanded by 3.1MTPA to strengthen geographical reach:** The company is mulling over the expansion of its satellite grinding capacity from 4MTPA to 7.1MTPA at a cost of Rs1,095 crore. The slated expansion which is to be completed in 18 months (post statutory clearances) is expected to take its aggregate cement capacity from 16.5MTPA to 19.6MTPA. The expansion aims to strengthen reach in Andhra Pradesh, West Bengal and North Eastern states.
- Outlook:** Ramco's operational performance is expected to be under pressure in the near term considering lower utilisation in the Southern region and benefits of low cost petcoke inventory getting totally eroded from the current quarter. Moreover, any pressure on cement prices in Southern region can further affect its operational performance. We would be keenly monitoring demand revival in Southern region post monsoon, cement price trends and measures taken by the company to improve operational efficiency (to contain increased power and freight costs).
- Valuation - maintain Hold with revised PT of Rs750:** We have lowered our earnings estimates for FY2018 and FY2019 to factor in higher power & fuel cost in 1QFY2018. We believe that benefit of the capacity expansion would be back ended in FY2019. The near term challenges persist on the containment of cost pressure and the ability to increase prices to sustain margins. Hence, we maintain our Hold rating on the stock with revised price target of Rs750 due to downward revision in operating margins.

Result						Rs cr
Particulars	Q1FY18	Q1FY17	YoY %	Q4FY17	QoQ %	
Net Sales	1028.8	964.4	6.7	1026.2	0.3	
Total Expenditure	738.4	667.9	10.6	773.7	-4.6	
Operating profits	290.4	296.5	-2.0	252.5	15.0	
Other Income	5.2	9.6	-45.2	5.8	-9.0	
EBIDTA	295.7	306.1	-3.4	258.3	14.5	
Interest	15.5	29.1	-47.0	20.1	-23.2	
PBDT	280.2	276.9	1.2	238.2	17.6	
Depreciation	72.0	66.3	8.6	66.4	8.4	
PBT	208.2	210.6	-1.1	171.8	21.2	
Tax	52.4	54.7	-4.1	37.3	40.5	
Extraordinary items	0.0	0.0		0.0		
Reported Profit After Tax	155.8	155.9	-0.1	134.5	15.9	
Adjusted PAT	155.8	155.9	-0.1	134.5	15.9	
EPS	6.5	6.6	-0.1	5.7	15.9	
OPMs (%)	28.2	30.7	-252 bps	24.6	362 bps	
PAT (%)	15.1	16.2	-102 bps	13.1	204 bps	
Tax rate (%)	25.2	26.0	-79 bps	21.7	345 bps	

Valuation						Rs cr
Particulars	FY2015	FY2016	FY2017	FY2018E*	FY2019E*	
Net sales	3,594	3,573	3,950	4,333	4,707	
Growth YoY (%)	-1.1	-0.6	10.5	9.7	8.6	
EBITDA	662	1,072	1,176	1,243	1,362	
EBITDA margin (%)	18.4	30.0	29.8	28.7	28.9	
Adjusted PAT	236	518	649	710	804	
Growth YoY (%)	91.8	119.6	25.3	9.4	13.2	
EPS diluted (Rs)	9.9	21.8	27.3	30.2	34.1	
P/E (x)	70.2	32.0	25.5	23.1	20.4	
P/BV (x)	6.3	5.4	4.4	3.9	3.3	
EV/EBITDA (x)	28.5	17.2	15.1	14.0	12.5	
EV/Sales (x)	5.2	5.2	4.5	4.0	3.6	
RoE (%)	9.2	18.1	19.0	17.9	17.6	
RoCE (%)	7.4	12.0	12.9	13.3	13.8	

*Factoring in buy-back of 25lakh shares which is currently underway by the company

Per tonne analysis (blended basis)							Rs per tonne
Particulars	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	YoY %	QoQ %
Volume	2,066,000	2,034,000	1,988,000	2,277,000	2,150,000	4.1	-5.6
Realisation	4,467	4,560	4,648	4,435	4,487	0.4	1.2
Total RM	810	777	830	862	803	-0.9	-6.8
Employee Expense	342	344	351	295	349	1.9	18.0
Power & Fuel	626	591	645	617	782	25.0	26.7
Transportation & Handling	858	879	891	901	930	8.4	3.2
Other Expenses	597	669	645	722	634	6.2	-12.2
Total Expenditure per tonne	3,233	3,260	3,362	3,398	3,497	8.2	2.9
EBDITA per tonne	1,234	1,300	1,286	1,037	989	-19.8	-4.6

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