

ANALYST CORNER

◆ Maintain 'buy' on Ramco Cements with TP of ₹850

RELIANCE SECURITIES

MISSING OUR estimate, Ramco Cements (RCL) has reported a dismal operating performance in third quarter of FY18, owing to lower sales volume at 2.27 MT (against our estimate of 2.3 MT), steeper-than-estimated decline in average realisation and sharp jump in operational cost. Reported EBITDA declined by 13.7% year-on-year and 14.4% quarter-on-quarter to ₹2.26 billion against our estimate of ₹2.63 billion, while EBITDA/tonne came in at ₹996 against ₹1,319 and ₹1,229 in third quarter of FY17 and second quarter of FY18, respectively. Notably, RCL wrote back ₹47 million in third quarter of FY18 (total ₹124 million in nine months of FY18) pertaining to reversal of DMF provisioning. While operating cost/tonne rose by 7.4% year-on-year and 1.6% quarter-on-quarter to ₹3,611 mainly due to sharp increase in power and fuel cost and freight cost, average realisation/tonne declined by 1.6% year-on-year and 3.7% quarter-on-quarter to ₹4,606. Sales volume increased by 14.4% year-on-year and 5.7% quarter-on-quarter to 2.27 MT mainly on account of higher

contribution from Eastern markets. We cut our EBITDA estimates by 14% each for FY18E and FY19E mainly to factor in dismal realisation and soaring fuel prices and roll over our valuations to FY20E. Nonetheless, we maintain our 'buy' recommendation on the stock with a revised target price of ₹850 (from ₹810 earlier). While sales volume at 2.27MT (including export of 0.03MT) was below our estimate, a volume growth of 14% year-on-year and 6% quarter-on-quarter is impressive, in our view. Notably, higher sales in Eastern markets supported volume growth. However, the company witnessed decent sales volume in Southern markets too barring Tamil Nadu, which continued to bleed due to sand issues. Looking ahead, we expect sales volume to remain healthy in coming months due to pick-up in construction activities.

Despite a sharp jump in sales volume, reported EBITDA declined by 14% year-on-year to ₹2.26 billion against our estimate of ₹2.63 billion. A sharper-than-estimated decline in realisation to ₹4,606 and surge in power & fuel and freight cost led by increase in petcoke/diesel prices dragged RCL's operating performance.