THE ECONOMIC TIMES

Cost control, high demand in south to benefit Ramco Cements

By *Rajesh Naidu*, ET Bureau | Jul 01, 2016, 06.19 AM IST

Chennai-based cement company, The Ramco Cements has been able to run operations efficiently compared with peers. In FY16, the company generated operating profit before depreciation (Ebidta) per tonne of cement at Rs 1,400 while it was Rs 800-850 per tonne for the peers.

In the coming months, the company is expected to benefit from several factors. To control costs, it has taken initiatives such as limestone beneficiation (removing the moisture in limestone to preserve it), coastal shipping, higher pet coke consumption and fleet optimisation. These measures are expected to reduce overall expenditure for the company.

Growth Trajectory

The Ramco Cements Financials

	FY16	FY17E	FY18E
Ebitda margin (%)	29.3	29.6	29.7
Ebit margin (%)	21.8	22.8	23.8
PAT margin (%)	14.4	15.3	16.7
RoE (%)	17.9	17.7	19.1
RoCE (%)	12.7	14.4	17.2
Debt to Equity (x)	0.7	0.4	0.1
Net debt/ Ebitda (x)	2	1.2	0.4
Dividend yield (%)	0.2	0.2	0.2

Source: IDFC Securities

The company is set to benefit from increasing demand in the Southern region from two new states, Andhra Pradesh and Telangana, and pick up in construction activities in urban areas. These two factors are likely to create 23 million tonnes (MT) of demand for cement. To take advantage of this, Ramco plans to expand its capacity to 20 million tonnes from 18 MT.

Due to firm demand, cement prices in the Southern region have sustained in the range of Rs 350-400 per 50 kg. For Ramco, which has capacity utilisation of a little over 50%, the increasing cement demand should boost capacity utilisation, thereby enhancing Ebidta margin from 29.1% currently.

The company has been reducing debt. In FY16, its debt fell by Rs 600 crore to Rs 1,771 crore. This brought down the debt-equity ratio to 0.5 from 0.8 in the previous year. It plans to repay another Rs 800 crore in financial year 2016-17.

At Thursday's closing price of Rs 554, the company's enterprise value (EV) was 10 times its EBIDTA, which is quite attractive when compared with its past three-year average EV/EBIDTA of 23.8.