

# Stock Update

Favourable cement pricing environment; Maintain Buy with revised PT of Rs. 830

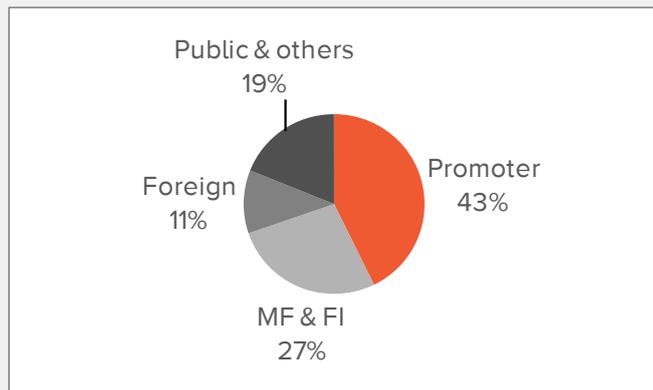
## The Ramco Cements

Reco: Buy | CMP: Rs714

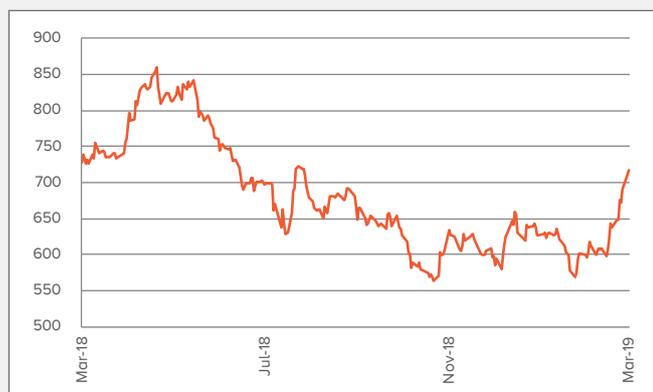
### Company details

Price target:	Rs830
Market cap:	Rs16,830 cr
52-week high/low:	Rs879/546
NSE volume: (No of shares)	3.1 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	20.4	20.2	10.7	-1.9
Relative to Sensex	20.8	18.2	15.0	-10.3

### Key points

- Cement prices in the South see marquee improvement:** Our channel check for pan-India cement prices during the months of January and February 2019, revealed a sharp improvement in cement prices in Southern region. The average cement prices in the South during Jan-Feb 2019 improved 5.8% vs Q3FY2019 (up 2% Vs Q4FY2018). The average pan-India cement prices during the same period were higher by ~1.8% vs Q3FY2019 and Q4FY2018. The cement prices in the South saw marked improvement during February 2019 (up 7.5% y-o-y and 14.1% m-o-m). The rise in cement prices in the South follows the increasing capacity utilisation of the regional cement players. Ramco Cements has shown cement volume growth of 15-20% y-o-y over trailing five quarters. If higher cement prices in South is sustained during March 2019, it is expected to result in improvement in profitability for Ramco Cements during Q4FY2019 given a continued healthy demand environment and benign operating expense.
- Capacity expansions plus better realisations to aid in healthy net earnings growth during FY2019-2021:** The Ramco Cements capacity expansion plan of Rs. 3430 crore to reach cement capacity of 20MTPA by FY2020 and 23MT by FY2021 is expected to aid in healthy volume growth during FY2019-2021. Additionally, if cement prices continues to sustain or tread higher level, the company's net earnings may witness 28% CAGR during the same period. However, the operating expense especially power & fuel and freight costs should remain benign during the same period.
- Maintain Buy with revised PT of Rs. 830:** The Ramco Cements stock has risen ~24% since our last stock update dated 29th January 2019. We believe that the sharp uptick in cement prices in South during February 2019 acted as a key catalyst in steep increase in the stock price. We have marginally increased the realisation estimate for Q4FY2019 as we await cement price performance for March 2019. Consequently, our net earnings estimate for FY2019-2021 stands revised upwards by ~3%.

We also roll forward our valuation multiple to FY2021 leading to a revision in our price target to Rs. 830. We continue to maintain Buy on the stock.

- ◆ **Key Risk:** Correction in cement prices in South and/or sharp upward movement in power & Fuel and freight costs are key risks to our call.

#### Valuations

Particulars	Rs cr			
	FY18	FY19E	FY20E	FY21E
Net sales	4,406	5,080	6,011	6,950
Growth %	11.6	15.3	18.3	15.6
EBDITA	1,083	996	1,249	1,487
EBDITA margin	24.6	19.6	20.8	21.4
Adjusted PAT	539	455	597	740
Growth %	-16.9	-15.7	31.3	23.8
EPS diluted (Rs)	22.9	19.3	25.3	31.4
PE (x)	31.2	37.0	28.2	22.8
P/BV (x)	4.2	3.8	3.4	3.0
EV/EBDITA (x)	16.3	18.0	14.5	12.2
EV/sales (x)	4.0	3.5	3.0	2.6
ROE (%)	13.9%	10.8%	12.8%	14.1%
ROCE (%)	9.8%	8.0%	9.4%	10.4%

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