

THE COMPASS

Prospects of southern cement firms healthy

Ramco, India Cements to benefit from removal of sand mining ban

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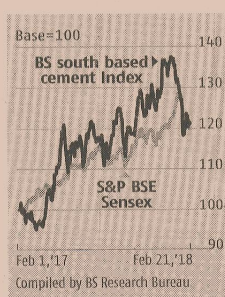
Southern India-based cement firms, which had been affected by weak demand because of lower realisations and profitability, have reason to celebrate. Earlier this month, the Supreme Court lifted the ban on sand mining, which should prop up construction, demand and profitability.

In the December quarter, average price of a 50 kg bag stood at ₹301, lower than ₹344 a year ago. Analysts said Tamil Nadu was the weakest link with sand mining bans taking a toll on demand and margins.

Binod Modi at Reliance Securities said Tamil Nadu's annual cement consumption at 19-20 million tonne had declined in the last few quarters due to the sand crisis in the state. With the lifting of the ban, Modi expected the state's cement demand to recover and benefit players such as Ramco Cements and India Cements.

Higher demand in Tamil Nadu would also rub off well on cement realisations across all southern states. It will reduce logistic costs for companies, which were being forced to compensate by selling to other states. Capacity utilisation, too, would improve, said analysts who felt firms such as Sagar Cements, NCL Industries and Orient Cement would also benefit.

Improved realisations and volumes will drive profitability at a time when cost pressures are increasing. Rising coal and petcoke prices have impacted profitability of most players in the region. While India Cements had seen its operating profits fall 19 per cent year-on-year, Ramco Cements had seen a 13.7 per cent decline in Q3. The share prices of most of these com-



panies were down 14-24 per cent from their recent peak levels.

The share price correction and expected change in fortunes provide an opportunity for investors. While the resolution of sand mining issues bodes well, the impact of the note ban and the goods and service tax (GST)-related stock adjustments, which had affected volumes in 2017, are behind for these companies. Despite pressure on profitability, Ramco Cements and India Cements reported per tonne operating profit of ₹840 and ₹867, respectively, in Q3. This is comparable to regional peers such as Ambuja Cements, which reported per tonne operating profit of ₹746. All India players such as UltraTech and ACC's had seen per tonne profitability of ₹717 and ₹505, respectively, in Q3.

Analysts at Anand Rathi said the removal of the sand mining ban in Tamil Nadu, along with greater demand from government-initiated infrastructure projects, and Trinetra's synergies (merged subsidiary) would lead to a better performance for India Cements. Consistent deleveraging, strong brand equity, improving realisations as well as capacity utilisation kept analysts bullish on Ramco Cements.