

SELL**TP: Rs 585 | ▼ 30%****THE RAMCO CEMENTS**

Cement

14 August 2023

Pressure on operational efficiencies to continue

- New capacities (+2mt YoY) aid a 28% jump in Q1 volumes but pursuit of growth impacts realisations
- Cost curve remains high, compressing EBITDA margin by 170bps YoY and EBITDA/t by 11%
- Maintain SELL with an unchanged TP of Rs 585

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Volume-led topline growth: TRCL's Q1FY24 revenue grew 28% YoY (-12% QoQ) to Rs 22.4bn driven by a 28% YoY (-9% QoQ) jump in volumes to 4.2mt. The eastern region contributed 21% of volumes, lower than the 27%/23% levels seen in Q1FY23/Q4FY23 due to the wet season. Realisations stay flat YoY at Rs 5,298/t while dipping 4% QoQ on account of pricing pressure in southern markets.

Operating performance weak: EBITDA increased 14% YoY (-17% QoQ), but the margin fell 170bps YoY (-80bps QoQ) to 15.2% owing to listless pricing and marginal cost inflation. Overall cost moved up 1% YoY to Rs 4,491/t as energy cost increased (+13% YoY, +8% QoQ) to Rs 1,787/t due to high-cost inventory. Logistics cost was flat both YoY and sequentially at Rs 1,082/t, though staff expenses increased 17% (+12% QoQ) to Rs 1.3bn. Effectively, EBITDA/t fell 11% YoY (-10% QoQ) to Rs 784/t. We expect only a marginal improvement in efficiencies ahead.

Capacity expansion plans: Commissioning timelines for TRCL's expansion projects are as follows – (i) Odisha grinding unit line II with 0.9mtpa of cement capacity: H2FY24; (ii) 4MW of waste heat recovery system capacity in Kurnool: Q2FY24 (commissioned); (iii) 18MW thermal power plant and railway siding: FY24-end; and (iv) two dry mortar plant units in Andhra Pradesh and Odisha: FY24-end. Management indicated that the next phase of expansion will begin with Kurnool line II (3mt cement, 2.25mt clinker), followed by the Karnataka greenfield plant (land acquisition for Bommanahalli project is underway).

Valuations high; retain SELL: TRCL is likely to see continued volume-led growth (Q1 capacity utilisation at 77%), albeit with tough pricing conditions. We maintain our FY24/FY25 EPS estimates but are keenly watching price and cost developments. At current valuations of 13.7x FY25E EV/EBITDA, valuations look expensive given high gearing, single-digit return ratios and a weak margin profile. We maintain SELL, valuing the stock at an unchanged 10x FY25E EV/EBITDA multiple, implying a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry average. Our TP remains at Rs 585.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	TRCL IN/Rs 841
Market cap	US\$ 2.4bn
Free float	58%
3M ADV	US\$ 6.5mn
52wk high/low	Rs 953/Rs 634
Promoter/FPI/DII	42%/7%/32%

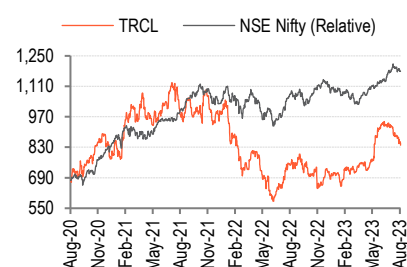
Source: NSE | Price as of 14 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	81,004	93,036	1,04,850
EBITDA (Rs mn)	11,156	14,889	17,705
Adj. net profit (Rs mn)	3,435	4,997	6,602
Adj. EPS (Rs)	14.5	21.1	27.9
Consensus EPS (Rs)	14.5	26.0	32.5
Adj. ROAE (%)	5.2	7.1	8.8
Adj. P/E (x)	57.8	39.7	30.1
EV/EBITDA (x)	21.6	16.3	13.7
Adj. EPS growth (%)	(61.6)	45.5	32.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Key metrics

(Rs)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Volumes (mt)	4.23	3.31	27.8	4.63	(8.6)
Cement realisations (Rs/mt)	5,298	5,285	0.2	5,526	(4.1)
Operating costs (Rs/mt)	4,491	4,447	1.0	4,658	(3.6)
EBITDA (Rs/mt)	784	878	(10.8)	870	(9.9)

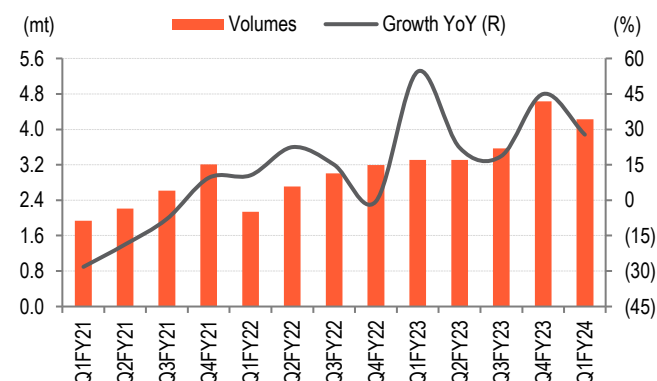
Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

(Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net Sales	22,411	17,495	28.1	25,587	(12.4)
Other operating income	0	230	(100.0)	110	(100.0)
Expenditure					
Change in stock	(651.6)	(220.4)	-	836.1	-
Raw material	3,919	2,862	36.9	4,473	(12.4)
Purchased products	0	0	0.0	0	0
Power & fuel	7,559	5,244	44.1	7,686	(1.7)
Freight	4,577	3,598	27.2	4,994	(8.3)
Employee costs	1,266	1,082	16.9	1,131	11.9
Other expenses	2,327	2,153	8.1	2,448	(4.9)
Total Operating Expenses	18,996	14,718	29.1	21,568	(11.9)
EBITDA	3,415	3,007	13.6	4,128	(17.3)
EBITDA margin (%)	15.2	17.0	(173bps)	16.1	(83bps)
Other Income	79	69	14.3	116	(32.2)
Interest	934	475	96.7	772	21.0
Depreciation	1,479	1,064	39.0	1,406	5.2
PBT	1,081	1,537	(29.7)	2,067	(47.7)
Non-recurring items	0	0	0.0	0	-
PBT (after non-recurring items)	1,081	1,537	(29.7)	2,067	(47.7)
Tax	292	414	(29.6)	543	(46.3)
Tax Rate (%)	27	27	3	26	71
Reported PAT	789	1,123	(29.7)	1,524	(48.2)
Adjusted PAT	789	1,123	(29.7)	1,524	(48.2)
NPM (%)	3.5	6.4	(290bps)	6.0	(244bps)
Adjusted EPS (Rs)	3.3	4.8	(29.7)	6.5	(48.2)

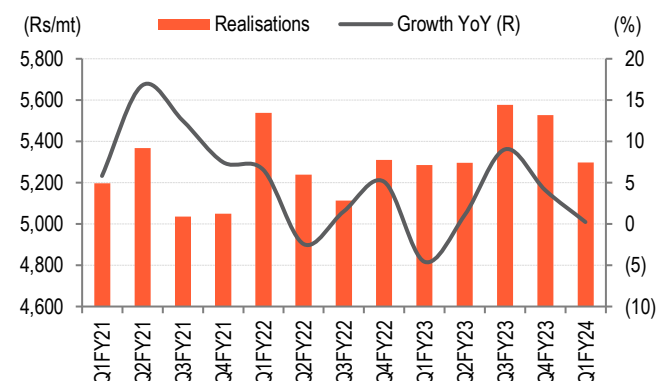
Source: Company, BOBCAPS Research

Fig 3 – New capacity additions to aid volume growth



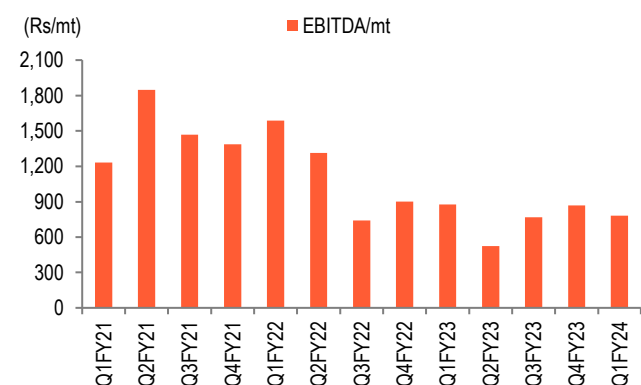
Source: Company, BOBCAPS Research

Fig 4 – Pricing pressure to continue in southern region



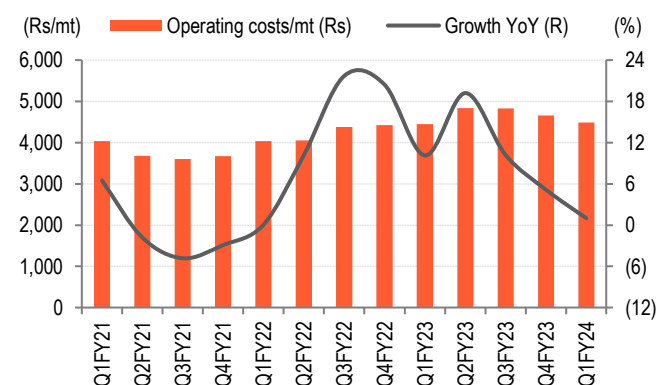
Source: Company, BOBCAPS Research

Fig 5 – Elevated cost and listless realisations weighed on EBITDA/mt



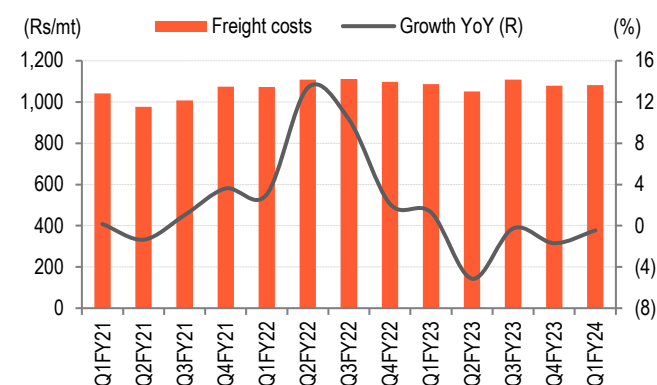
Source: Company, BOBCAPS Research

Fig 6 – Cost structure continues to stay elevated



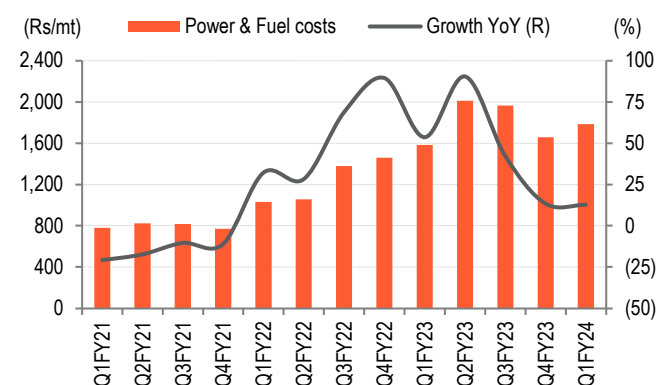
Source: Company, BOBCAPS Research

Fig 7 – Logistics cost rationalisation limited in Q1



Source: Company, BOBCAPS Research

Fig 8 – Power cost respite to flow from Q2



Source: Company, BOBCAPS Research

Valuation methodology

TRCL is likely to see continued volume-led growth (Q1FY24 capacity utilisation at 77%), albeit with tough pricing conditions. We maintain our FY24/FY25 EPS estimates but are keenly watching price and cost developments. At current valuations of 13.7x FY25E EV/EBITDA, valuations look expensive given high gearing, single-digit return ratios and a weak margin profile. Management plans to fund the new capacity addition required for growth via debt, which we estimate will propel the debt/EBITDA ratio above 3x for the next two years and exert pressure on the interest coverage ratio.

We maintain SELL, valuing the stock at an unchanged 10x FY25E EV/EBITDA multiple, implying a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry average. Our TP remains at Rs 585.

Fig 9 – Key assumptions

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	11.5	14.8	17.5	19.4
Realisations (Rs/mt)	5,137	5,441	5,316	5,405
Operating costs (Rs/mt)	4,084	4,698	4,485	4,498
EBITDA/mt (Rs)	1096	799	839	898

Source: Company, BOBCAPS Research

Fig 10 – Valuation summary

(Rs mn)	FY25E
Target EV/EBITDA (x)	10.00
EBITDA	17,705
Target EV	1,84,128
Total EV	1,84,128
Net debt	45,211
Target market capitalisation	1,38,917
Target price (Rs/sh)	585
Weighted average shares (mn)	236

Source: BOBCAPS Research

Fig 11 – Peer comparison

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
TRCL IN	SELL	585	21.6	16.2	13.7	134	133	135	5.2	7.1	8.8	5.8	7.8	9.2
DALBHARA IN	HOLD	1,934	16.5	14.5	11.4	126	127	124	4.0	6.3	9.9	5.4	7.2	10.0
JKCE IN	HOLD	3,474	20.4	16.0	11.5	160	161	161	12.6	17.3	20.4	12.4	16.6	19.8

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- easing supply pressure in the eastern region and better pricing environment in the southern region, aiding operating efficiencies, and
- change in management strategy towards faster repayment on debt.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.4	1,910	1,964	HOLD
Ambuja Cements	ACEM IN	10.7	441	435	HOLD
Dalmia Bharat	DALBHARA IN	4.3	1,911	1,934	HOLD
JK Cement	JKCE IN	3.0	3,142	3,474	HOLD
JK Lakshmi Cement	JKLC IN	0.9	632	551	SELL
Shree Cement	SRCM IN	10.4	23,721	24,656	HOLD
The Ramco Cements	TRCL IN	2.4	841	585	SELL

Source: BOBCAPS Research, NSE | Price as of 14 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	52,451	59,567	81,004	93,036	1,04,850
EBITDA	15,246	12,606	11,156	14,889	17,705
Depreciation	(3,553)	(4,008)	(5,044)	(5,959)	(6,425)
EBIT	12,273	9,137	6,827	9,687	12,072
Net interest inc./(exp.)	(876)	(1,124)	(2,091)	(2,915)	(3,160)
Other inc./(exp.)	580	540	716	757	792
Exceptional items	0	0	0	0	0
EBT	11,397	8,013	4,737	6,772	8,913
Income taxes	(3,786)	915	(1,302)	(1,775)	(2,310)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	7,611	8,928	3,435	4,997	6,602
Adjustments	0	0	0	0	0
Adjusted net profit	7,611	8,928	3,435	4,997	6,602

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	3,634	4,892	6,373	6,637	7,401
Other current liabilities	11,227	12,462	16,389	16,825	18,421
Provisions	321	413	533	380	380
Debt funds	31,132	39,300	44,874	44,941	48,607
Other liabilities	10,823	8,240	9,285	9,085	9,539
Equity capital	236	236	236	236	236
Reserves & surplus	56,032	64,323	67,699	71,861	77,628
Shareholders' fund	56,268	65,195	67,881	72,097	77,864
Total liab. and equities	1,13,404	1,30,502	1,45,336	1,49,965	1,62,213
Cash and cash eq.	1,419	1,760	1,686	805	3,396
Accounts receivables	3,752	3,498	4,650	5,353	6,320
Inventories	5,979	8,333	8,823	12,235	14,076
Other current assets	7,181	7,097	6,604	6,945	7,140
Investments	1,956	1,957	1,957	1,984	1,999
Net fixed assets	68,708	76,809	1,01,022	1,11,921	1,19,051
CWIP	23,701	30,340	19,873	10,000	9,500
Intangible assets	708	707	721	722	732
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	1,13,404	1,30,501	1,45,336	1,49,965	1,62,213

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	13,878	10,127	13,453	7,074	13,553
Capital expenditures	(17,432)	(17,999)	(18,385)	(7,649)	(13,778)
Change in investments	(122)	(1)	0	(26)	(15)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(17,554)	(18,000)	(18,385)	(7,675)	(13,793)
Equities issued/Others	0	636	(690)	54	0
Debt raised/repaid	4,679	8,168	5,575	66	3,667
Interest expenses	0	0	0	0	0
Dividends paid	(679)	(665)	(723)	(400)	(835)
Other financing cash flows	180	76	695	0	0
Cash flow from financing	4,181	8,215	4,857	(279)	2,831
Chg in cash & cash eq.	505	342	(75)	(881)	2,591
Closing cash & cash eq.	1,419	1,760	1,685	805	3,396

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	32.3	37.8	14.5	21.1	27.9
Adjusted EPS	32.3	37.8	14.5	21.1	27.9
Dividend per share	3.0	3.0	3.0	3.0	3.0
Book value per share	238.7	276.1	287.3	305.1	329.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	4.3	4.0	3.0	2.6	2.3
EV/EBITDA	14.9	18.7	21.6	16.3	13.7
Adjusted P/E	26.0	22.2	57.8	39.7	30.1
P/BV	3.5	3.0	2.9	2.8	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	66.8	111.4	72.5	73.8	74.1
Interest burden (PBT/EBIT)	92.9	87.7	69.4	69.9	73.8
EBIT margin (EBIT/Revenue)	23.4	15.3	8.4	10.4	11.5
Asset turnover (Rev./Avg TA)	49.1	48.8	58.7	63.0	67.2
Leverage (Avg TA/Avg Equity)	2.0	2.0	2.1	2.1	2.1
Adjusted ROAE	14.4	14.7	5.2	7.1	8.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(1.8)	13.6	36.0	14.9	12.7
EBITDA	37.1	(17.3)	(11.5)	33.5	18.9
Adjusted EPS	26.5	17.1	(61.6)	45.5	32.1
Profitability & Return ratios (%)					
EBITDA margin	29.1	21.2	13.8	16.0	16.9
EBIT margin	23.4	15.3	8.4	10.4	11.5
Adjusted profit margin	14.5	15.0	4.2	5.4	6.3
Adjusted ROAE	14.4	14.7	5.2	7.1	8.8
ROCE	13.4	8.7	5.8	7.8	9.2
Working capital days (days)					
Receivables	26	21	21	21	22
Inventory	42	51	40	48	49
Payables	36	38	33	31	31
Ratios (x)					
Gross asset turnover	0.5	0.5	0.5	0.6	0.6
Current ratio	1.2	1.2	0.9	1.1	1.2
Net interest coverage ratio	14.0	8.1	3.3	3.3	3.8
Adjusted debt/equity	0.6	0.6	0.7	0.6	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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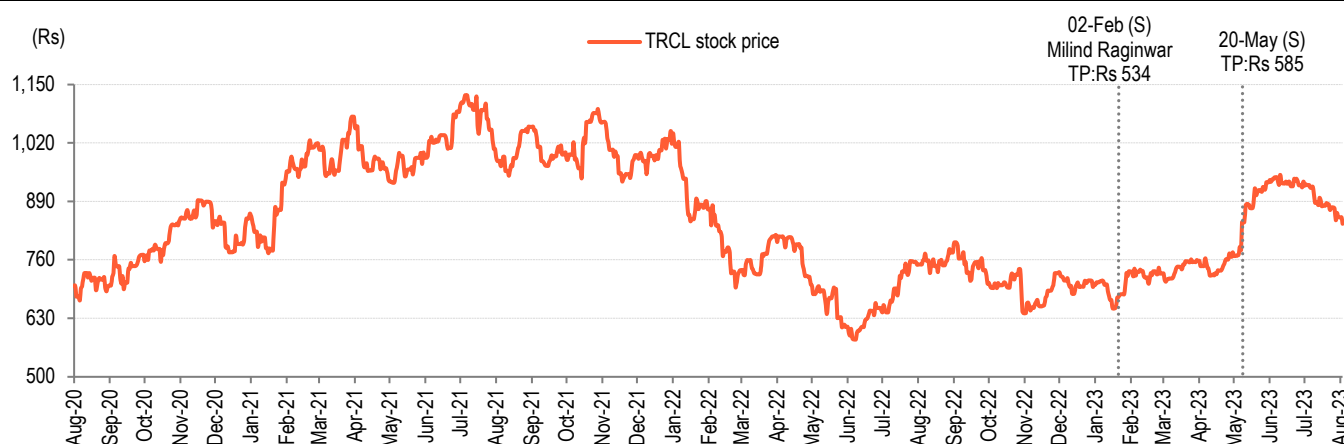
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): THE RAMCO CEMENTS (TRCL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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