

**SELL****TP: Rs 661 | ▼ 35%****THE RAMCO CEMENTS**

Cement

09 November 2023

## Quarterly respite, challenges may continue

- New capacities buoyed Q2 volumes by 39% YoY but realisations slipped 5%
- Fuel cost-savings aid 680bps YoY EBITDA margin improvement to 17.1% off a low base
- FY24/FY25 EBITDA estimates raised 7%/10; maintain SELL with revised TP of Rs 661 (vs. Rs 585)

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**Volume-led topline growth:** TRCL's Q2FY24 revenue grew 33% YoY (+4% QoQ) to Rs 23.3bn as volumes surged 39% (+9% QoQ) to 4.6mn tonnes. The eastern region contributed 19% of volumes, lower than the 22%/21% levels seen in Q2FY23/Q1FY24 due to the wet season. Realisations contracted 5% YoY and QoQ to Rs 5,053/t on account of pricing pressure in southern markets.

**Cost pressure eases:** EBITDA doubled YoY (+17% QoQ) to ~Rs 4bn and the company's operating margin soared 680bps (+190bps QoQ) to 17.1% on a weak base and as costs declined. Overall cost/tonne moved down 13% YoY (-7% QoQ) to Rs 4,188/t as raw material-adjusted energy cost fell 18% YoY (-9% QoQ) to Rs 2,317/t due to lower fuel cost, and logistics cost also reduced to Rs 1,025/t. Consequently, EBITDA/t jumped 61% YoY (+8% QoQ) to Rs 843/t.

**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) 3MW of waste heat recovery system capacity in Kurnool: Q2FY24 (commissioned); (iii) 18MW thermal power plant and rail siding at Kurnool: Q3FY24 and Q1FY25 respectively, and (iv) two dry mortar plant units in Andhra Pradesh and Odisha: Q3FY24. Management indicated that the next phase of expansion will begin with Kurnool line II (3mt cement, 2.25mt clinker). The company has already acquired limestone-bearing land in Andhra Pradesh and Karnataka to secure mining reserves.

**Valuations high; retain SELL:** TRCL is likely to see continued volume-led growth (Q2 capacity utilisation at 84%), albeit with tough pricing conditions. To factor in the higher volumes, we raise our FY24/FY25 EBITDA estimates by 8%/11%, leading to a higher TP of Rs 661 (vs. Rs 585). Despite this, current valuations of 14.5x FY25E EV/EBITDA look lofty given high gearing, single-digit return ratios and an unsteady 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.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TRCL IN/Rs 1,022
Market cap	US\$ 2.9bn
Free float	58%
3M ADV	US\$ 5.4mn
52wk high/low	Rs 1,040/Rs 634
Promoter/FPI/DII	42%/7%/32%

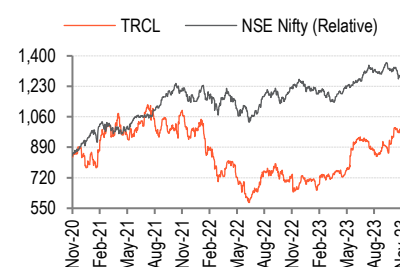
Source: NSE | Price as of 9 Nov 2023

## Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	81,004	97,124	1,11,386
EBITDA (Rs mn)	11,156	16,043	19,558
Adj. net profit (Rs mn)	3,435	5,863	7,992
Adj. EPS (Rs)	14.5	24.8	33.8
Consensus EPS (Rs)	14.5	26.0	36.5
Adj. ROAE (%)	5.2	8.3	10.4
Adj. P/E (x)	70.3	41.2	30.2
EV/EBITDA (x)	25.5	17.8	14.7
Adj. EPS growth (%)	(61.6)	70.7	36.3

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



## Earnings call highlights

- TRCL's capacity utilisation stood at ~84% in Q2FY24 vs. 66% in Q2FY23. The share of premium products was ~28% and OPC ~31%. The company's sale volumes grew 33% in H1FY24 and management has guided for ~18mt in FY24.
- Cement prices have been under constant pressure in Q2FY24 although demand has been strong. Management indicated that TRCL has taken a significant price hike in October which has been sustained in November.
- Raw material cost/tonne increased 6% YoY to Rs 897 due to higher procurement cost.
- Power and fuel cost/t declined 32.5% YoY to Rs 1,358 aided by the use of wind power for captive use and softer fuel prices. Blended fuel consumption cost/t stood at US\$148 (US\$ 199 in Q2FY23) and cost per kcal was Rs 1.75 (Rs 2.58 in Q2FY23). The fuel mix was 53% pet coke, 40% coal and 7% alternates.
- Overall green power share in Q2FY24 was 38% (from 22% in Q2FY23) and is expected to reach 40% in FY24 and 45% in FY25.
- Capex spend during H1FY24 was Rs 12.2bn and management has guided for capex of Rs 16bn-16.5bn for FY24 (Rs 18bn for FY25). Net debt as on Q2 was Rs 50bn. Management indicated that its focus will be on deleveraging the balance sheet and has guided for a peak net debt-to-EBITDA ratio of 2x.
- TRCL has incurred Rs 7.5bn for phase-2 expansion at Kurnool, Andhra Pradesh, (3mt cement, 2.25mt clinker) and expects the same to come online within 12-15 months. Post Kurnool expansion, its cement grinding capacity is expected to rise to 25mtpa.
- Apart from Kurnool expansion, capacity expansion of dry mix products in Andhra Pradesh and Odisha are to be commissioned by Q3FY24. Grinding unit expansion of 0.9mtpa at the Odisha plant is expected by Q4FY24. TRCL has acquired limestone-bearing land (2mt limestone available) in Andhra Pradesh and Karnataka to augment its limestone reserves.
- Finance cost increased 112% YoY to Rs 1.2bn and depreciation grew 29% YoY to Rs 1.6bn in Q2 as a result of commissioning of the Kolimigundla integrated unit, RR Nagar Line-3 and dry mortar plants in RR Nagar and Salem. The average cost of borrowings was 7.8% (from 6.35% in Q2FY23) due to the increase in rates.
- Management indicated that TRCL is not entitled to tax incentives from any state government and the EBITDA generated is without such incentives.

**Fig 1 – Key metrics**

(Rs)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Volumes (mt)	4.6	3.3	39.2	4.23	9.0
Cement realisations (Rs/mt)	5,053	5,296	(4.6)	5,298	(4.6)
Operating costs (Rs/mt)	4,188	4,834	(13.4)	4,491	(6.7)
EBITDA (Rs/mt)	843	525	60.6	784	7.6

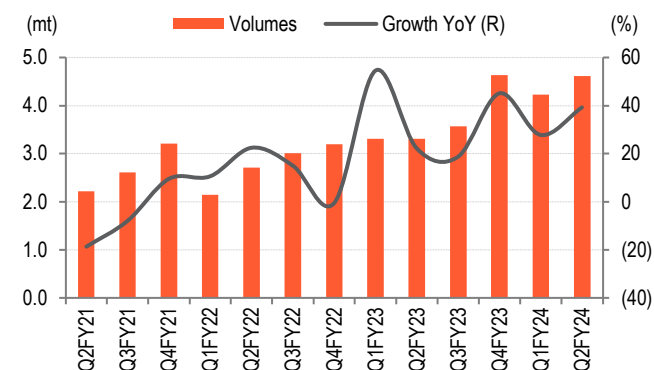
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
<b>Net Sales</b>	<b>23,293</b>	<b>17,535</b>	<b>32.8</b>	<b>22,411</b>	<b>3.9</b>
Other operating income	0	309	(100.0)	0	0.0
<b>Expenditure</b>					
Change in stock	281.9	(102.5)	(375.0)	(651.6)	(143.3)
Raw material	4,137	2,800	47.8	3,919	5.6
Purchased products	0	0	0.0	0	0
Power & fuel	6,262	6,664	(6.0)	7,559	(17.1)
Freight	4,724	3,481	35.7	4,577	3.2
Employee costs	1,385	1,121	23.5	1,266	9.4
Other expenses	2,517	2,042	23.2	2,327	8.2
Total Operating Expenses	19,307	16,006	20.6	18,996	1.6
<b>EBITDA</b>	<b>3,986</b>	<b>1,838</b>	<b>116.9</b>	<b>3,415</b>	<b>16.7</b>
EBITDA margin (%)	17.1	10.3	681bps	15.2	188bps
Other Income	135	88	52.5	79	70.8
Interest	1,165	551	111.7	934	24.8
Depreciation	1,574	1,216	29.5	1,479	6.4
PBT	1,382	160	762.4	1,081	27.8
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,382	160	762.4	1,081	27.8
Tax	369	46	710.1	292	26.4
Tax Rate (%)	27	28	(172)	27	(30)
Reported PAT	1,013	115	783.2	789	28.4
<b>Adjusted PAT</b>	<b>1,013</b>	<b>115</b>	<b>783.2</b>	<b>789</b>	<b>28.4</b>
NPM (%)	4.3	0.7	369bps	3.5	83bps
<b>Adjusted EPS (Rs)</b>	<b>4.3</b>	<b>0.5</b>	<b>783.2</b>	<b>3.3</b>	<b>28.4</b>

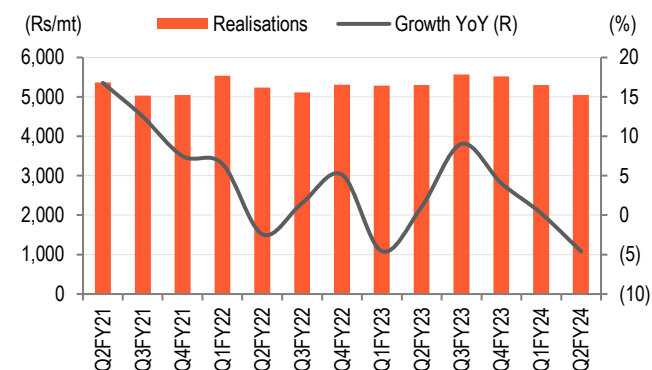
Source: Company, BOBCAPS Research

**Fig 3 – Expanded capacity drove volumes in Q2FY24**



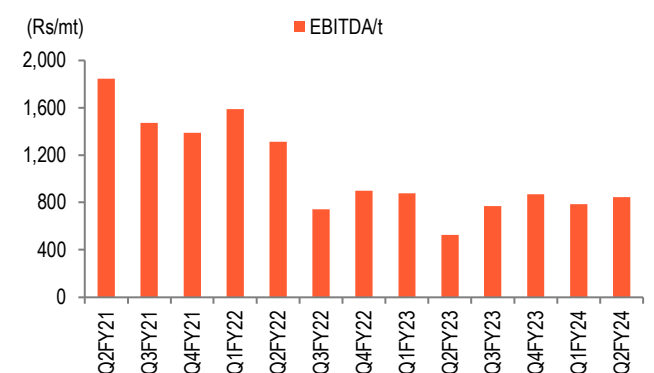
Source: Company, BOBCAPS Research

**Fig 4 – Realisation dent due to weak key market**



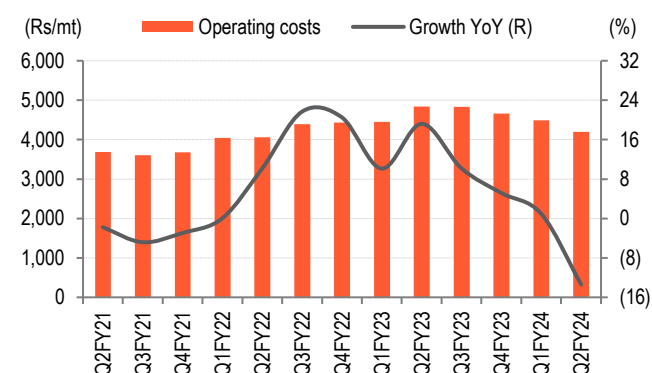
Source: Company, BOBCAPS Research

**Fig 5 – EBITDA/t driven by fuel cost savings**



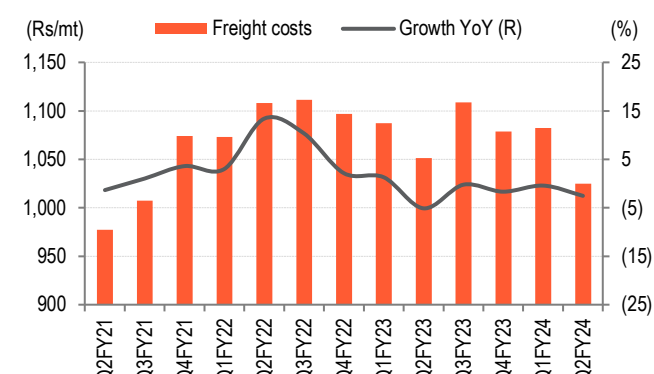
Source: Company, BOBCAPS Research

**Fig 6 – Lower fuel cost aids lower operating cost**



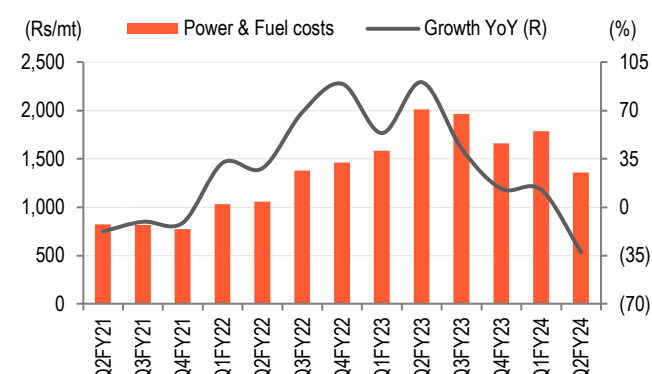
Source: Company, BOBCAPS Research

**Fig 7 – Freight cost in check**



Source: Company, BOBCAPS Research

**Fig 8 – Power cost may continue to soften**



Source: Company, BOBCAPS Research

## Valuation methodology

TRCL is likely to see continued volume-led growth (Q2FY24 capacity utilisation at 84%), albeit with tough pricing conditions. To factor in the higher volumes, we raise our FY24/FY25 EBITDA estimates by 8%/11%, leading to a higher TP of Rs 661 (vs. Rs 585). Despite this, current valuations of 14.5x FY25E EV/EBITDA look lofty given high gearing, single-digit return ratios and an unsteady 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.

**Fig 9 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	97,124	1,11,386	93,036	1,04,850	4.4	6.2
EBITDA	16,043	19,558	14,889	17,705	7.8	10.5
Adj PAT	5,863	7,992	4,997	6,602	17.3	21.1
Adj EPS (Rs)	24.8	33.8	21.1	27.9	17.3	21.1

Source: BOBCAPS Research

**Fig 10 – Key assumptions**

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	11.5	14.8	18.26	20.66
Realisations (Rs/mt)	5,137	5,441	5,240	5,319
Operating costs (Rs/mt)	4,084	4,698	4,441	4,444
EBITDA/mt (Rs)	1096	799	879	947

Source: Company, BOBCAPS Research

**Fig 11 – Valuation summary**

(Rs mn)	FY25E
Target EV/EBITDA (x)	10
EBITDA	19,558
Target EV	203,399
Total EV	203,399
Net debt	47,155
Target market capitalisation	1,56,244
<b>Target price (Rs/sh)</b>	<b>661</b>
Weighted average shares (mn)	236

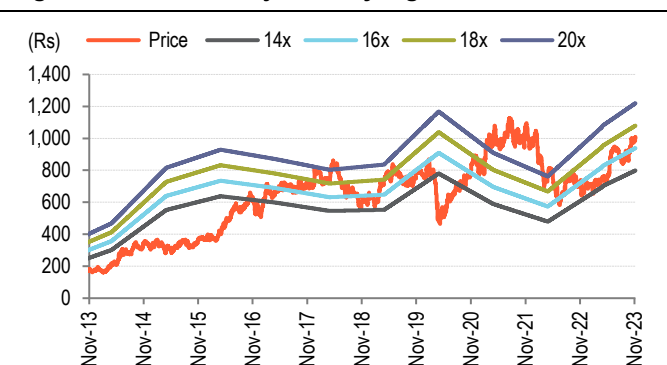
Source: BOBCAPS Research

**Fig 12 – 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	25.5	17.8	14.7	134	133	135	5.2	8.3	10.4	5.8	8.7	10.5
DALBHARA IN	HOLD	2,286	17.6	15.4	11.3	126	109	107	4.0	6.3	11.1	5.4	7.2	10.9
JKCE IN	HOLD	3,578	25.6	16.2	12.2	160	161	161	12.9	16.2	18.6	12.7	18	20.7

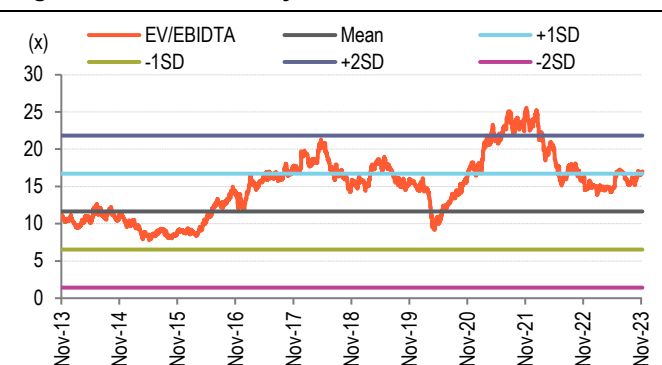
Source: BOBCAPS Research

**Fig 13 – Valuations unjustifiably high**



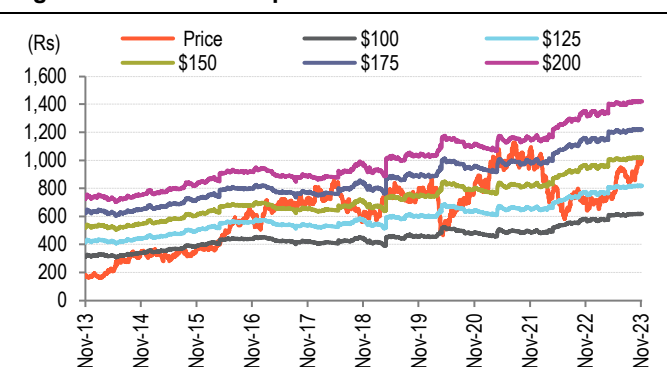
Source: Company, BOBCAPS Research

**Fig 14 – Valuations likely to revert to mean**



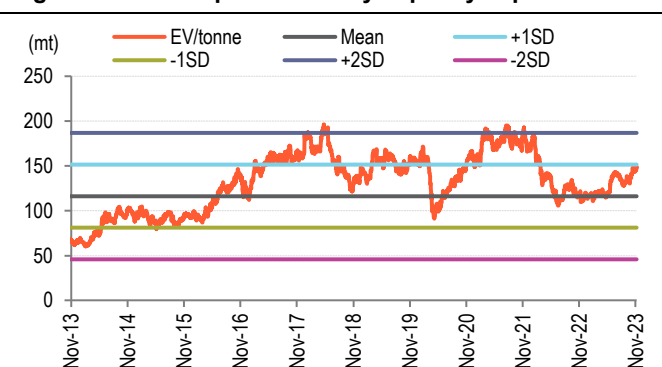
Source: Company, BOBCAPS Research

**Fig 15 – Reasonable replacement cost**



Source: Company, BOBCAPS Research

**Fig 16 – Current spike driven by capacity expansion**



Source: Company, 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,
- change in management strategy towards faster debt repayment, and
- faster softening of cost structure than assumed.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.2	1,845	2,158	BUY
Ambuja Cements	ACEM IN	10.1	418	449	HOLD
Dalmia Bharat	DALBHARA IN	4.7	2,094	2,286	HOLD
JK Cement	JKCE IN	3.2	3,390	3,578	HOLD
JK Lakshmi Cement	JKLC IN	1.1	780	551	SELL
Orient Cement	ORCMNT IN	0.5	213	128	SELL
Shree Cement	SRCM IN	11.4	25,951	24,792	HOLD
Star Cement	STRCEM IN	0.8	159	159	HOLD
The Ramco Cements	TRCL IN	2.9	1,022	661	SELL
Ultratech Cement	UTCEM IN	30.3	8,627	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Nov 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>52,451</b>	<b>59,567</b>	<b>81,004</b>	<b>97,124</b>	<b>1,11,386</b>
EBITDA	15,246	12,606	11,156	16,043	19,558
Depreciation	(3,553)	(4,008)	(5,044)	(5,959)	(6,425)
EBIT	12,273	9,137	6,827	10,841	13,925
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	7,926	10,766
Income taxes	(3,786)	915	(1,302)	(2,064)	(2,773)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>7,611</b>	<b>8,928</b>	<b>3,435</b>	<b>5,863</b>	<b>7,992</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>7,611</b>	<b>8,928</b>	<b>3,435</b>	<b>5,863</b>	<b>7,992</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	3,634	4,892	6,373	6,886	7,799
Other current liabilities	11,227	12,462	16,389	16,825	17,945
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	72,726	79,883
Shareholders' fund	56,268	65,195	67,881	72,963	80,119
<b>Total liab. and equities</b>	<b>1,13,404</b>	<b>1,30,502</b>	<b>1,45,336</b>	<b>1,51,079</b>	<b>1,64,391</b>
Cash and cash eq.	1,419	1,760	1,686	247	1,452
Accounts receivables	3,752	3,498	4,650	5,588	6,714
Inventories	5,979	8,333	8,823	12,772	14,953
Other current assets	7,181	7,097	6,604	7,845	9,990
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
<b>Total assets</b>	<b>1,13,404</b>	<b>1,30,501</b>	<b>1,45,336</b>	<b>1,51,079</b>	<b>1,64,391</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>13,878</b>	<b>10,127</b>	<b>13,453</b>	<b>6,516</b>	<b>12,167</b>
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
<b>Cash flow from investing</b>	<b>(17,554)</b>	<b>(18,000)</b>	<b>(18,385)</b>	<b>(7,675)</b>	<b>(13,793)</b>
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
<b>Cash flow from financing</b>	<b>4,181</b>	<b>8,215</b>	<b>4,857</b>	<b>(279)</b>	<b>2,831</b>
<b>Chg in cash &amp; cash eq.</b>	<b>505</b>	<b>342</b>	<b>(75)</b>	<b>(1,439)</b>	<b>1,205</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,419</b>	<b>1,760</b>	<b>1,685</b>	<b>247</b>	<b>1,452</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	32.3	37.8	14.5	24.8	33.8
Adjusted EPS	32.3	37.8	14.5	24.8	33.8
Dividend per share	3.0	3.0	3.0	3.0	3.0
Book value per share	238.7	276.1	287.3	308.8	339.1

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	5.2	4.7	3.5	2.9	2.6
EV/EBITDA	17.7	22.1	25.5	17.8	14.7
Adjusted P/E	31.7	27.0	70.3	41.2	30.2
P/BV	4.3	3.7	3.6	3.3	3.0

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	66.8	111.4	72.5	74.0	74.2
Interest burden (PBT/EBIT)	92.9	87.7	69.4	73.1	77.3
EBIT margin (EBIT/Revenue)	23.4	15.3	8.4	11.2	12.5
Asset turnover (Rev./Avg TA)	49.1	48.8	58.7	65.5	70.6
Leverage (Avg TA/Avg Equity)	2.0	2.0	2.1	2.1	2.1
Adjusted ROAE	14.4	14.7	5.2	8.3	10.4

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(1.8)	13.6	36.0	19.9	14.7
EBITDA	37.1	(17.3)	(11.5)	43.8	21.9
Adjusted EPS	26.5	17.1	(61.6)	70.7	36.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	29.1	21.2	13.8	16.5	17.6
EBIT margin	23.4	15.3	8.4	11.2	12.5
Adjusted profit margin	14.5	15.0	4.2	6.0	7.2
Adjusted ROAE	14.4	14.7	5.2	8.3	10.4
ROCE	13.4	8.7	5.8	8.7	10.5
<b>Working capital days (days)</b>					
Receivables	26	21	21	21	22
Inventory	42	51	40	48	49
Payables	36	38	33	31	31
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.5	0.5	0.6	0.6
Current ratio	1.2	1.2	0.9	1.1	1.3
Net interest coverage ratio	14.0	8.1	3.3	3.7	4.4
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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## Disclaimer

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

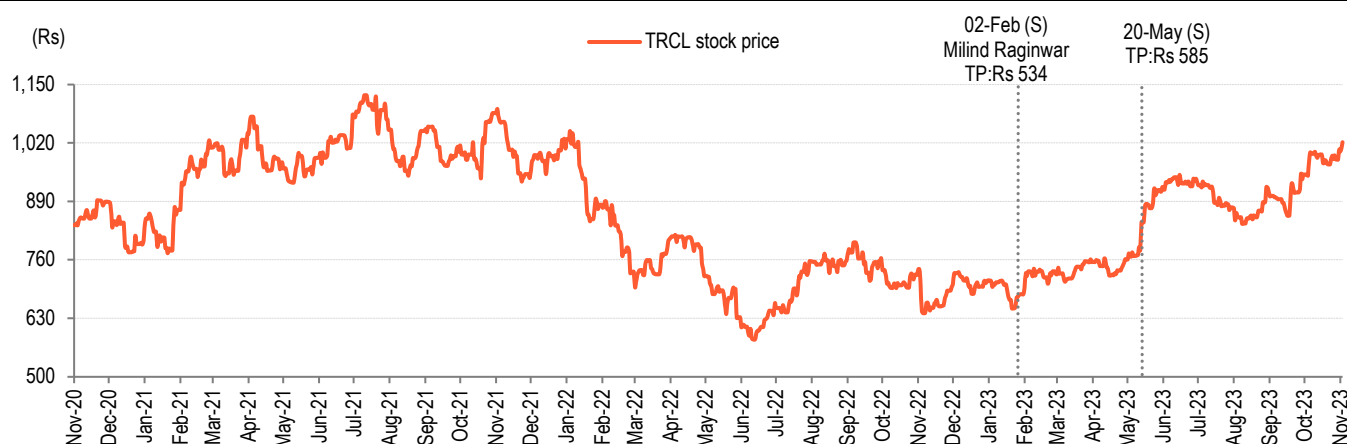
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

## 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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