

**SELL****TP: Rs 585 | ▼ 31%****THE RAMCO CEMENTS**

Cement

20 May 2023

## Strong volume push but pricing pressure persists

- New capacities (+2mt YoY) aided 45% jump in Q4 volumes (28% net of added capacities)
- Margin gains QoQ driven by softening of fuel cost from Rs 2.4/kcal to Rs 2.2; YoY cost remains elevated
- FY24/FY25 EPS raised 21%/8% on volume gains, yielding a revised TP of Rs 585 (vs. Rs 534); retain SELL on expensive valuations

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**Volume-led topline growth:** TRCL's Q4FY23 revenue grew 51%/29% YoY/QoQ to Rs 25.6bn driven by a 45%/30% YoY/QoQ jump in volumes to 4.6mt. The eastern region contributed 24% of volumes. Realisations grew just 4% YoY to Rs 5,526/t, while dipping 1% QoQ on account of pricing pressure in southern markets.

**Softer energy cost QoQ:** Operating cost increased 5% YoY (-4% QoQ) to Rs 4,658/t on 13% YoY energy inflation as blended fuel cost rose to Rs 2.21/kcal against Rs 1.88/kcal in Q4FY22 and Rs 2.43/kcal in Q3FY23. Additionally, raw material cost (adj. for inventory) grew 36%/47% YoY/QoQ to Rs 1,147/t. Other expenditure increased just 5%/4% YoY/QoQ to Rs 2.4bn despite the strong volume push as the company benefited from improved operating leverage. Logistics cost declined 2%/3% YoY/QoQ to Rs 1,079/t as the average lead distance came down.

**Strong EBITDA gains:** EBITDA rose 40%/45% YoY/QoQ to Rs 4.1bn and margin improved 190bps QoQ but declined 120bps YoY to 16.1% due to higher energy cost. EBITDA/t dipped 4% YoY to Rs 870/t and grew 13% QoQ. Reported PAT of Rs 1.5bn grew 23%/126% YoY/QoQ despite higher interest expense and depreciation.

**Capacity expansion plans:** Commissioning timelines are as follows – Odisha grinding unit line II with 0.9mtpa of cement capacity: H2FY24, 4MW of Waste Heat Recovery System capacity in Kurnool: 18MW thermal power plant and railway siding: FY24, and two dry mortar plant units in Andhra Pradesh and Odisha: FY24. 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.

**Valuations high; retain SELL:** TRCL's volume-driven growth is likely to continue, albeit tempered by pricing pressure. Based on the Q4 print, we raise our FY24/FY25 EPS estimates by 21%/8%. Even so, current valuations of 13.9x FY25E EV/EBITDA look expensive given TRCL's high gearing, single-digit return ratios and weak margin profile. We thus retain SELL, valuing the stock at an unchanged 10x FY25E EV/EBITDA multiple, which implies a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry average. Post estimate revision, our TP moves to Rs 585 (vs. Rs 534).

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TRCL IN/Rs 844
Market cap	US\$ 2.4bn
Free float	58%
3M ADV	US\$ 4.3mn
52wk high/low	Rs 850/Rs 576
Promoter/FPI/DII	42%/7%/32%

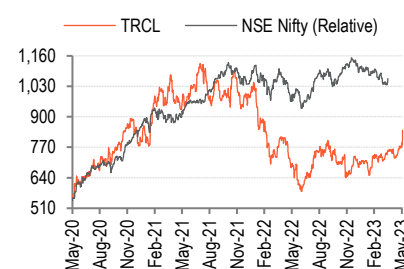
Source: NSE | Price as of 19 May 2023

## Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	81,353	93,036	1,04,850
EBITDA (Rs mn)	11,479	14,657	17,443
Adj. net profit (Rs mn)	3,095	4,992	6,590
Adj. EPS (Rs)	13.1	21.1	27.9
Consensus EPS (Rs)	13.1	26.0	32.5
Adj. ROAE (%)	4.6	7.1	8.8
Adj. P/E (x)	64.4	39.9	30.3
EV/EBITDA (x)	21.1	16.4	13.9
Adj. EPS growth (%)	(65.4)	61.3	32.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q4FY23	Q3FY23	Our view
Volume and Realisation	<p>TRCL achieved volume growth of 34% for FY23; targets 20% growth in FY24.</p> <p>Capacity utilisation was at 85% in Q4FY23 against 66% in Q4FY22. Kurnool integrated unit achieved clinker capacity utilisation of 83% in Q4FY23. Clinker conversion ratio was maintained at 1.25.</p>	<p>Management has guided for volume growth of 30% in FY23 and a double-digit uptick in FY24 as new capacity ramps up.</p> <p>Capacity utilisation was at 70% in Q3FY23, and management expects +80% levels in Q4FY23. The Kurnool integrated unit achieved clinker capacity utilisation of 54% in Q3FY23.</p>	Volume-driven growth will continue; however, given a presence in oversupplied markets, we anticipate continued pressure on realisations.
Margins	<p>Blended fuel consumption per tonne of material was at US\$ 178/t vs. US\$ 162 in Q4FY22. Spot price was at US\$ 125. Alternate Fuel/Raw material cost which was less than Rs 1/kcal is almost equal to coal cost.</p> <p>Revenue share of premium cement stood at 25% for Q4FY23 and FY23. Trade share was at 65%.</p>	<p>Blended fuel consumption per tonne of material for Q3FY23 was at US\$ 191 and TRCL expects average coal and fuel prices in Q4FY23 to be at par with those in Q3.</p> <p>Revenue share of premium cement stood at 26% against 23% in Q3FY22. Trade share was at 63%.</p> <p>Higher other expenditure was attributed to a rise in advertisement expenses.</p>	Cost benefit to reflect from Q2FY24 due to high inventory holding (fuel). However, a higher ordinary Portland cement mix implies higher power utilisation that will partially offset the cost benefits.
Capacity commissioned	WHRS capacity of 8MW in Kurnool was commissioned during FY23. The dry mortar plant in Tamil Nadu (second unit) was commissioned in Feb'23, and RR Nagar Line III with clinker capacity of 1.04mtpa and cement capacity of 1mtpa came online in Mar'23. TRCL has enough limestone reserves for the next 30-40 years at Tamil Nadu.	5MW of WHRS capacity was commissioned in Kurnool in Q3FY23, another 3MW is expected to come online in Feb'23. For the dry mortar plant expansion in Tamil Nadu, one unit was commissioned in Dec'22 and another will follow in Feb'23. RR Nagar Line III with clinker capacity of 1.04mtpa is due before the end of FY23.	Timely capex commissioning will aid volume-backed growth for TRCL.
Capex	Capex stood at Rs 3.9bn for Q4 and Rs 17.7bn for FY23. There has been no change in guidance for FY24, i.e Rs 8.9bn. The capex target for Kurnool line-2 is Rs 8bn-9bn.	In Q3FY23, TRCL incurred capex of Rs 3.9bn. Guidance stands at Rs 7.3bn for H2FY23 and Rs 8.9bn for FY24.	Aggressive capex will continue in the next two years as TRCL is clearly chasing market share gains.
Debt	Net debt-to-EBITDA for FY23 was 3.57x as against 2.88x in FY22. The company is targeting a range of 2-2.5x.	Net debt in Q3 reduced from Rs 47.4bn in Q2FY23 to Rs 45.6bn, which includes a short-term loan of Rs 564mn and an interest-free loan of Rs 1.9bn.	Higher leverage adds to the discomfort.
Other key points	<p>There were no sales of non-core assets (land) in Q4, but TRCL is currently in the process of selling some parcels.</p> <p>TRCL is targeting green energy share of 34% by FY24.</p> <p>Cost overrun due to operation of 1mt capacity of the RR Nagar plant was Rs 1.2bn.</p>	No non-core assets were sold in Q3; management expects to sell land worth Rs 3bn-4bn in Q4FY24 which will aid working capital requirements.	Sale of non-core assets is clearly aimed at repaying debt and getting the balance sheet in shape.

Source: Company, BOBCAPS Research

**Fig 2 – Key metrics**

(Rs)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Volumes (mt)	4.6	3.2	45.1	3.6	29.7
Cement realisations (Rs/mt)	5,526	5,310	4.1	5,576	(0.9)
Operating costs (Rs/mt)	4,658	4,430	5.2	4,829	(3.5)
EBITDA (Rs/mt)	870	901	(3.4)	769	13.1

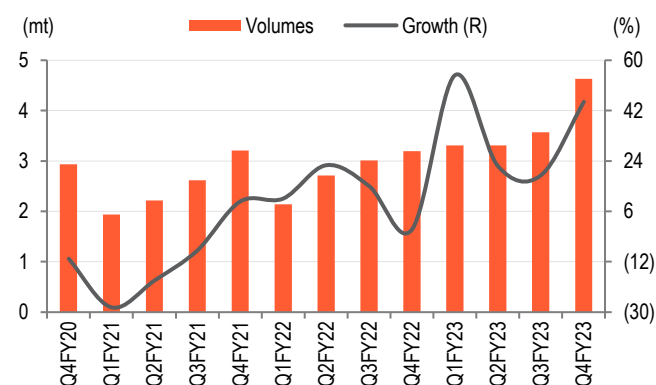
Source: Company, BOBCAPS Research

**Fig 3 – Quarterly performance**

(Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
<b>Net Sales</b>	<b>25,587</b>	<b>16,977</b>	<b>50.7</b>	<b>19,907</b>	<b>28.5</b>
Other operating income	110	115	(4.2)	181	(39.2)
<b>Expenditure</b>					
Change in stock	836	5	-	(654)	-
Raw material	4,473	2,693	66.1	3,435	30.2
Purchased products	0	0	0.0	0	0
Power & fuel	7,686	4,668	64.7	7,023	9.4
Freight	4,994	3,502	42.6	3,958	26.2
Employee costs	1,131	943	20.0	1,128	0.2
Other expenses	2,448	2,330	5.1	2,352	4.1
Total Operating Expenses	21,568	14,140	52.5	17,241	25.1
<b>EBITDA</b>	<b>4,128</b>	<b>2,951</b>	<b>39.9</b>	<b>2,846</b>	<b>45.0</b>
EBITDA margin (%)	16.1	17.3	(120bps)	14.2	190bps
Other Income	116	99	17.2	93	24.7
Interest	772	334	130.8	608	26.9
Depreciation	1,406	1,075	30.7	1,359	3.5
PBT	2,067	1,641	26.0	973	112.5
Non-recurring items	0	0	0.0	0	
PBT (after non-recurring items)	2,067	1,641	26.0	973	112.5
Tax	543	400	35.7	299	82.0
Tax Rate (%)	26	24	188	31	(441)
Reported PAT	1,524	1,241	22.8	674	126.0
<b>Adjusted PAT</b>	<b>1,524</b>	<b>1,241</b>	<b>22.8</b>	<b>674</b>	<b>126.0</b>
NPM (%)	6.0	7.3	(135bps)	3.4	257bps
<b>Adjusted EPS (Rs)</b>	<b>6.4</b>	<b>5.3</b>	<b>22.8</b>	<b>2.9</b>	<b>126.0</b>

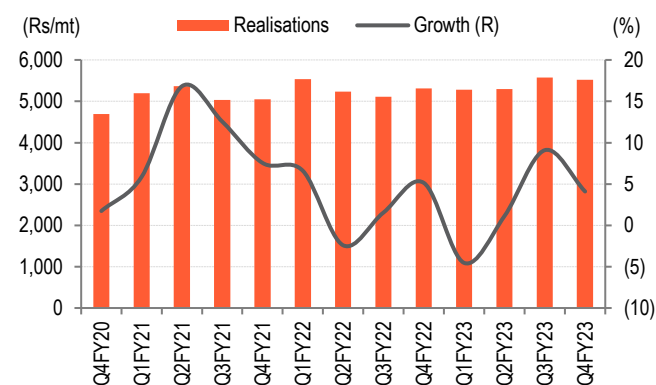
Source: Company, BOBCAPS Research

**Fig 4 – Volume driven growth to continue...**



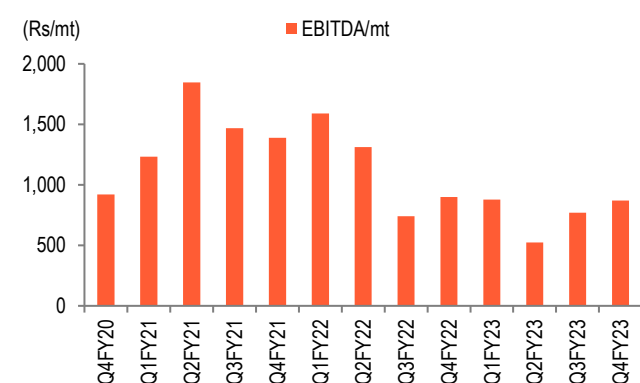
Source: Company, BOBCAPS Research

**Fig 5 – ...keeping up pressure on prices**



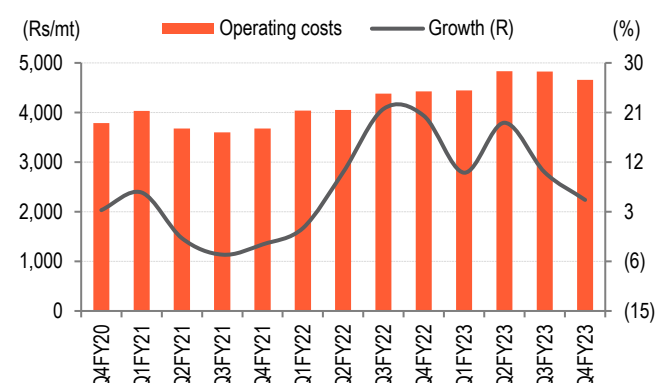
Source: Company, BOBCAPS Research

**Fig 6 – EBITDA/t remains subpar**



Source: Company, BOBCAPS Research

**Fig 7 – Cost benefit to accrue from energy savings**



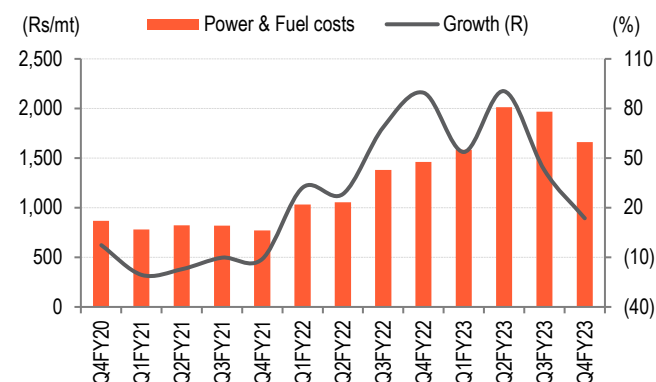
Source: Company, BOBCAPS Research

**Fig 8 – Tapping eastern markets from Andhra Pradesh plants to help rationalise logistic cost**



Source: Company, BOBCAPS Research

**Fig 9 – Power cost respite to be offset by higher power utilisation due to increased OPC in the mix**



Source: Company, BOBCAPS Research

## Valuation methodology

TRCL's volume-driven growth is likely to continue, albeit tempered by pricing pressure. Based on the Q4 print, we raise our FY24/FY25 EPS estimates by 21%/8%. Even so, current valuations of 13.9x FY25E EV/EBITDA look expensive given TRCL's high gearing (net debt-to-EBITDA of 3.6x in FY23), single-digit return ratios and relatively weak margin profile due to a presence in oversupplied regions. Further, the shift to OPC cement will mean that benefits from softening energy cost will flow only partially.

We thus retain SELL and value the stock at an unchanged 10x FY25E EV/EBITDA multiple, which implies a replacement cost of Rs 8.1bn/mt (~US\$ 100/t) – a 10% premium to the industry average. Post estimate revision, our TP moves to Rs 585 (vs. Rs 534).

**Fig 10 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	93,036	104,850	86,276	94,622	7.8	10.8
EBITDA	14,657	17,443	12,711	16,556	15.3	5.4
Adj PAT	4,992	6,590	4,102	6,105	21.7	7.9
Adj EPS	21.1	27.9	17.4	25.8	21.3	8.1

Source: BOBCAPS Research

**Fig 11 – 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 12 – Valuation summary**

(Rs mn)	FY25E
Target EV/EBITDA (x)	10
EBITDA	17,443
Target EV	1,81,406
Total EV	1,81,406
Net debt	43,147
Target market capitalisation	1,38,259
Target price (Rs/sh)	585
Weighted average shares (mn)	236

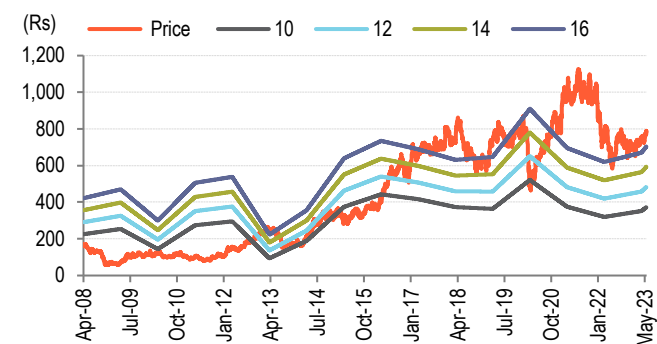
Source: BOBCAPS Research

**Fig 13 – 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	21.2	16.4	13.9	134	133	134	4.6	7.1	8.8	5.8	7.8	9.2
DALBHARA IN	HOLD	1,917	17.6	14.6	11.5	128	129	127	4.5	7.1	10.5	5.3	7.6	10.4
JKCE IN	BUY	3,371	17.9	14.8	11.3	158	155	152	17.0	17.8	19.2	16.2	17.0	19.1

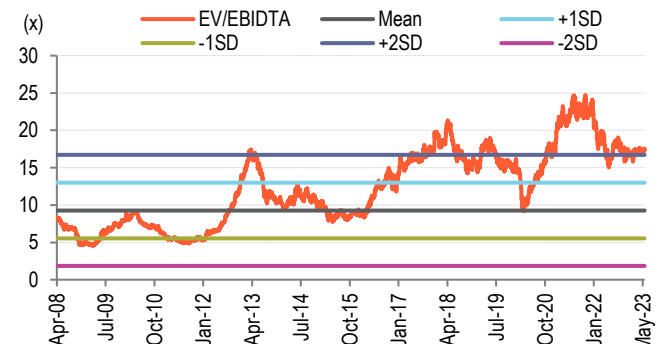
Source: BOBCAPS Research

**Fig 14 – P/E 1 Y fwd: Higher valuation premium unjustified**



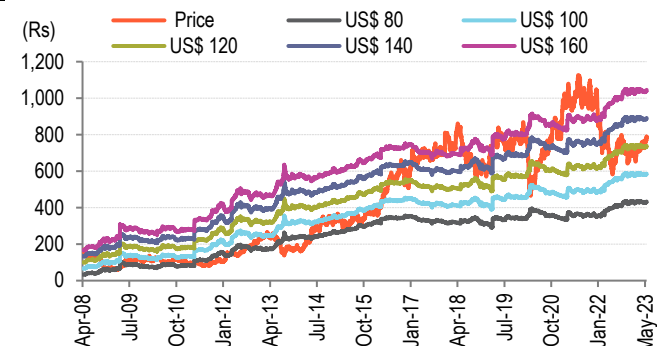
Source: Company, BOBCAPS Research

**Fig 15 – EV/EBITDA 1 Y fwd: Stock trading at above-average valuation**



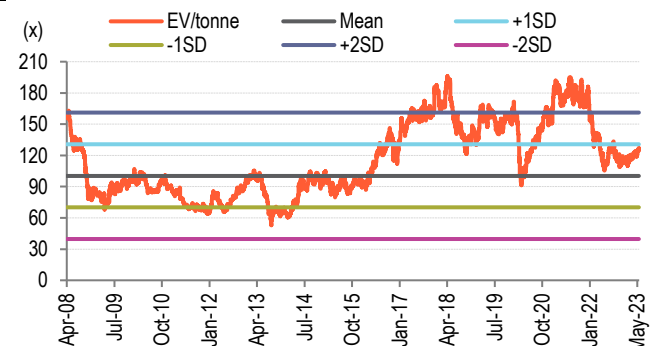
Source: Company, BOBCAPS Research

**Fig 16 – Implied replacement cost**



Source: Company, BOBCAPS Research

**Fig 17 – EV/t: Expected to retrace back to mean**



Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- faster pick-up in demand, in turn easing price pressure,
- faster debt repayment, leading to improvement in balance sheet and return ratios, and
- additional cost relief, aiding margin expansion.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.0	1,729	1,964	HOLD
Ambuja Cements	ACEM IN	9.7	403	375	HOLD
Dalmia Bharat	DALBHARA IN	4.6	2,058	1,917	HOLD
JK Cement	JKCE IN	2.8	3,023	3,371	BUY
JK Lakshmi Cement	JKLC IN	1.1	781	551	SELL
Orient Cement	ORCMNT IN	0.3	123	140	HOLD
Shree Cement	SRCM IN	10.7	24,409	24,656	HOLD
Star Cement	STRCEM IN	0.6	123	138	BUY
The Ramco Cements	TRCL IN	2.4	844	585	SELL
Ultratech Cement	UTCEN IN	27.0	7,681	8,678	BUY

Source: BOBCAPS Research, NSE | Price as of 19 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>52,451</b>	<b>59,567</b>	<b>81,353</b>	<b>93,036</b>	<b>1,04,850</b>
EBITDA	15,246	12,606	11,479	14,657	17,443
Depreciation	(3,553)	(4,008)	(5,044)	(5,601)	(6,073)
EBIT	12,273	9,137	6,802	9,671	12,013
Net interest inc./(exp.)	(876)	(1,124)	(2,405)	(2,905)	(3,117)
Other inc./(exp.)	580	540	367	615	644
Exceptional items	0	0	0	0	0
EBT	11,397	8,013	4,396	6,766	8,896
Income taxes	(3,786)	915	(1,302)	(1,773)	(2,306)
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>3,095</b>	<b>4,992</b>	<b>6,590</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>7,611</b>	<b>8,928</b>	<b>3,095</b>	<b>4,992</b>	<b>6,590</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	3,634	4,892	5,934	6,657	7,424
Other current liabilities	11,227	12,462	16,845	13,011	14,225
Provisions	321	413	98	380	380
Debt funds	31,132	39,300	45,071	45,143	48,303
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	71,856	77,611
Shareholders' fund	56,268	65,195	67,934	72,092	77,847
<b>Total liab. and equities</b>	<b>1,13,404</b>	<b>1,30,502</b>	<b>1,45,168</b>	<b>1,46,369</b>	<b>1,57,719</b>
Cash and cash eq.	1,419	1,760	1,686	3,852	5,156
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	4,377	9,171	9,363
Investments	1,956	1,957	2,023	1,984	1,999
Net fixed assets	68,708	76,809	91,756	1,03,054	1,10,574
CWIP	23,701	30,340	31,133	10,000	9,500
Intangible assets	708	707	720	721	731
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>1,45,168</b>	<b>1,46,369</b>	<b>1,57,719</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>13,878</b>	<b>10,127</b>	<b>15,399</b>	<b>(723)</b>	<b>12,773</b>
Capital expenditures	(17,432)	(17,999)	(21,289)	3,611	(13,778)
Change in investments	(122)	(1)	(66)	39	(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>(21,355)</b>	<b>3,650</b>	<b>(13,793)</b>
Equities issued/Others	0	636	(638)	2	0
Debt raised/repaid	4,679	8,168	5,772	72	3,160
Interest expenses	0	0	0	0	0
Dividends paid	(679)	(665)	(369)	(835)	(835)
Other financing cash flows	180	76	1,118	0	0
<b>Cash flow from financing</b>	<b>4,181</b>	<b>8,215</b>	<b>5,883</b>	<b>(762)</b>	<b>2,324</b>
<b>Chg in cash &amp; cash eq.</b>	<b>505</b>	<b>342</b>	<b>(74)</b>	<b>2,166</b>	<b>1,305</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,419</b>	<b>1,760</b>	<b>1,686</b>	<b>3,852</b>	<b>5,156</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	32.3	37.8	13.1	21.1	27.9
Adjusted EPS	32.3	37.8	13.1	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	287.5	305.1	329.4

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	4.4	4.0	3.0	2.6	2.3
EV/EBITDA	15.0	18.8	21.1	16.4	13.9
Adjusted P/E	26.1	22.3	64.4	39.9	30.3
P/BV	3.5	3.1	2.9	2.8	2.6

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	66.8	111.4	70.4	73.8	74.1
Interest burden (PBT/EBIT)	92.9	87.7	64.6	70.0	74.1
EBIT margin (EBIT/Revenue)	23.4	15.3	8.4	10.4	11.5
Asset turnover (Rev./Avg TA)	49.1	48.8	59.0	63.8	69.0
Leverage (Avg TA/Avg Equity)	2.0	2.0	2.1	2.1	2.0
Adjusted ROAE	14.4	14.7	4.6	7.1	8.8

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	(1.8)	13.6	36.6	14.4	12.7
EBITDA	37.1	(17.3)	(8.9)	27.7	19.0
Adjusted EPS	26.5	17.1	(65.4)	61.3	32.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	29.1	21.2	14.1	15.8	16.6
EBIT margin	23.4	15.3	8.4	10.4	11.5
Adjusted profit margin	14.5	15.0	3.8	5.4	6.3
Adjusted ROAE	14.4	14.7	4.6	7.1	8.8
ROCE	13.4	8.7	5.8	7.8	9.2
<b>Working capital days (days)</b>					
Receivables	26	21	21	21	22
Inventory	42	51	40	48	49
Payables	36	38	31	31	31
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.5	0.6	0.6	0.6
Current ratio	1.2	1.2	0.9	1.5	1.6
Net interest coverage ratio	14.0	8.1	2.8	3.3	3.9
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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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

**BUY** – Expected return >+15%

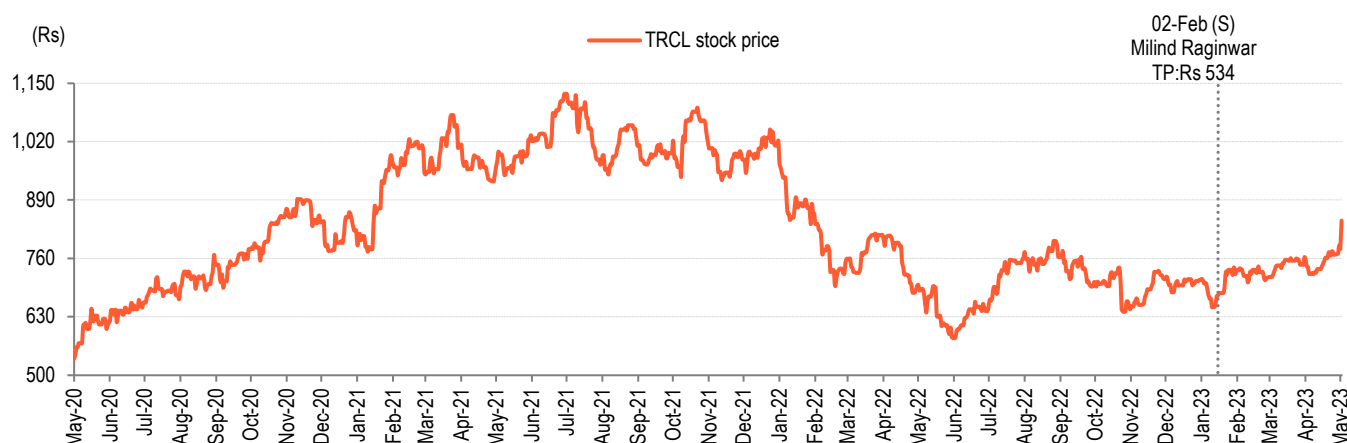
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

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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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