

SELL

TP: Rs 737 | ▼ 8%

THE RAMCO CEMENTS

Cement

26 July 2024

Challenges resurface; downgrade to SELL

- Q1 revenue showed degrowth of 7% due to weak volume growth amid extreme weather and elections; pricing pressures affected realisations
- Lower cost structure led by power and fuel cost partially offset the dent in realisation, and supported EBITDA margin YoY to stay ~15%
- We lower our FY25/FY26 EBITDA estimates by 2% each, apply 10x target multiple and cut our TP to Rs 737. We downgrade TRCL to SELL

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Degrowth in revenue amid elections: TRCL's Q1FY25 revenue degrew by 7% YoY to Rs 20.88bn due to weak volume growth of 3% YoY to 4.36mt amid general elections. Volumes for the southern and eastern India markets were maintained at 76:24. Realisations fell 10% YoY to Rs 4,790/t due to weak cement prices. Premium products share was 27%/20% for South/East regions; fell in South, flat in East YoY.

Cost savings offset weak realisations: Operating cost/t declined ~10% YoY (3% QoQ) to Rs 4,057/t. Power and fuel cost per tonne in Q1FY25 decreased to Rs 1,300 from Rs 1,787 YoY while logistics cost was down 2%-3% despite flat lead distance due to softening fuel cost. EBITDA fell by 6.5% YoY (-23.4% QoQ) to Rs 3.2bn and margin slid 30bps QoQ but remained flat YoY to 15.3%. EBITDA/t fell 9.4%/5.8% YoY/QoQ to Rs 710/t.

Expansion plans: TRCL remains on track to achieve 30mtpa of cement capacity by FY26 by commissioning the second line in Kolimigundla by taking some de-bottlenecking initiatives. Line-2 in Kolimigundla consists of a 3.15mtpa clinker and 1.5mtpa cement grinding unit with a 15MW waste heat recovery system which is expected to be commissioned by FY26. Further, an 18MW thermal power plant was commissioned in Jul'24 and a railway siding is expected to be commissioned by Sep'24. In Q1FY25, the company incurred a capex of Rs 2.81bn and has guided for a capex of Rs 12bn for FY25 which includes maintenance capex.

EBITDA cut leads to change in rating to SELL from HOLD: We lower our FY25/FY26 EBITDA estimates by 2% each, but rationalise depreciation and interest leading to EPS revisions of Rs 20.1/Rs 25.7 (earlier Rs 24.1/Rs 30.0). The aggressive capex drive has elevated TRCL's net debt to EBITDA to ~2.6x/2.5x FY24/FY25-end and it is unlikely to get relief in the medium term. TRCL's cost-savings measures are commendable and offer respite to EBITDA margins. However, the stock's current valuations at 11.0x FY26E EV/EBITDA are at a premium. We continue to apply an unchanged 10x target multiple and revise our TP to Rs 737 (previously Rs 763) implying a replacement cost of Rs 8.1bn/mnt – a 10% premium to the industry mean. Downgrade the stock from HOLD to SELL rating.

Key changes

| Target | Rating |
|--------|--------|
| ▼ | ▼ |

| | |
|------------------|-----------------|
| Ticker/Price | TRCL IN/Rs 801 |
| Market cap | US\$ 2.3bn |
| Free float | 58% |
| 3M ADV | US\$ 11.8mn |
| 52wk high/low | Rs 1,058/Rs 700 |
| Promoter/FPI/DII | 42%/7%/32% |

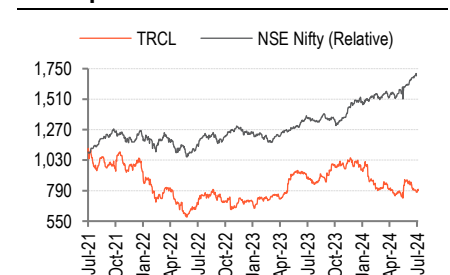
Source: NSE | Price as of 25 Jul 2024

Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|-------------------------|--------|----------|----------|
| Total revenue (Rs mn) | 93,223 | 1,04,362 | 1,20,407 |
| EBITDA (Rs mn) | 15,250 | 18,412 | 21,606 |
| Adj. net profit (Rs mn) | 3,950 | 4,736 | 6,083 |
| Adj. EPS (Rs) | 16.7 | 20.0 | 25.7 |
| Consensus EPS (Rs) | 16.7 | 22.1 | 31.2 |
| Adj. ROAE (%) | 5.7 | 6.4 | 7.8 |
| Adj. P/E (x) | 47.9 | 40.0 | 31.1 |
| EV/EBITDA (x) | 15.2 | 12.8 | 11.0 |
| Adj. EPS growth (%) | 26.6 | 19.9 | 28.4 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Key metrics

| (Rs) | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) |
|----------------------------|--------|--------|---------|--------|---------|
| Volumes (mt) | 4.4 | 4.2 | 3.1 | 5.4 | (19.3) |
| Cement realisations (Rs/t) | 4,790 | 5,298 | (9.6) | 4,945 | (3.1) |
| Operating costs (Rs/t) | 4,057 | 4,491 | (9.7) | 4,174 | (2.8) |
| EBITDA (Rs/t) | 710 | 784 | (9.4) | 753 | (5.8) |

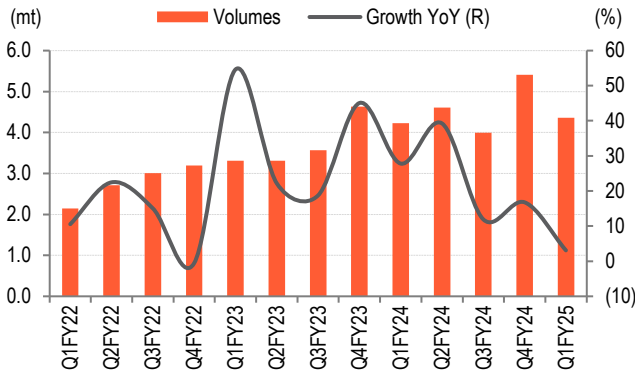
Source: Company, BOBCAPS Research

Fig 2 – Quarterly performance

| (Rs mn) | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 20,884 | 22,411 | (6.8) | 26,733 | (21.9) |
| Other operating income | 0 | 0 | | 0 | 0.0 |
| Expenditure | | | | | |
| Change in stock | (674.8) | (651.6) | 3.6 | 694.5 | 0.0 |
| Raw material | 4,312 | 3,919 | 10.0 | 5,519 | (21.9) |
| Purchased products | 0 | 0 | 0.0 | 0 | 0 |
| Power & fuel | 5,666 | 7,559 | (25.0) | 6,192 | (8.5) |
| Freight | 4,638 | 4,577 | 1.3 | 5,940 | (21.9) |
| Employee costs | 1,367 | 1,266 | 8.0 | 1,245 | 9.9 |
| Other expenses | 2,381 | 2,327 | 2.3 | 2,973 | (19.9) |
| Total Operating Expenses | 17,690 | 18,996 | (6.9) | 22,562 | (21.6) |
| EBITDA | 3,194 | 3,415 | (6.5) | 4,171 | (23.4) |
| EBITDA margin (%) | 15.3 | 15.2 | 6bps | 15.6 | (31bps) |
| Other Income | 85 | 79 | 7.7 | 140 | (39.3) |
| Interest | 1,131 | 934 | 21.1 | 1,038 | 9.0 |
| Depreciation | 1,667 | 1,479 | 12.7 | 1,651 | 1.0 |
| PBT | 482 | 1,081 | (55.4) | 1,623 | (70.3) |
| Non-recurring items | 0 | 0 | 0.0 | 0 | 0.0 |
| PBT (after non-recurring items) | 482 | 1,081 | (55.4) | 1,623 | (70.3) |
| Tax | 127 | 292 | (56.6) | 409 | (69.0) |
| Tax Rate (%) | 26 | 27 | (70) | 25 | 109 |
| Reported PAT | 355 | 789 | (55.0) | 1,214 | (70.8) |
| Adjusted PAT | 355 | 789 | (55.0) | 1,214 | (70.8) |
| NPM (%) | 1.7 | 3.5 | (182bps) | 4.5 | (284bps) |
| Adjusted EPS (Rs) | 1.5 | 3.3 | (55.0) | 5.2 | (70.8) |

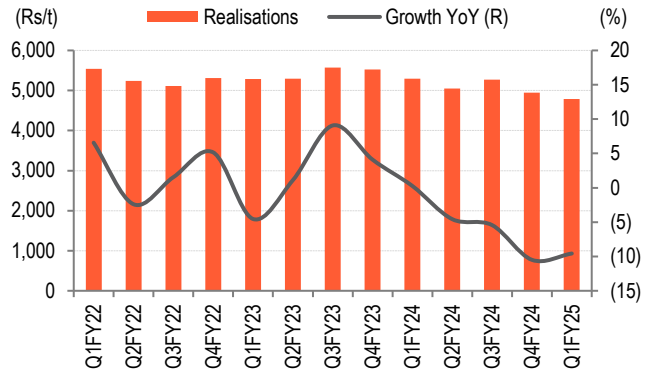
Source: Company, BOBCAPS Research

Fig 3 – Volume growth contributed by new capacities



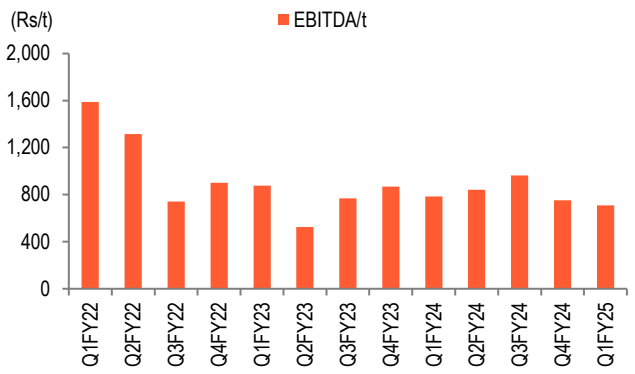
Source: Company, BOBCAPS Research

Fig 4 – Pricing revival unlikely in the short term



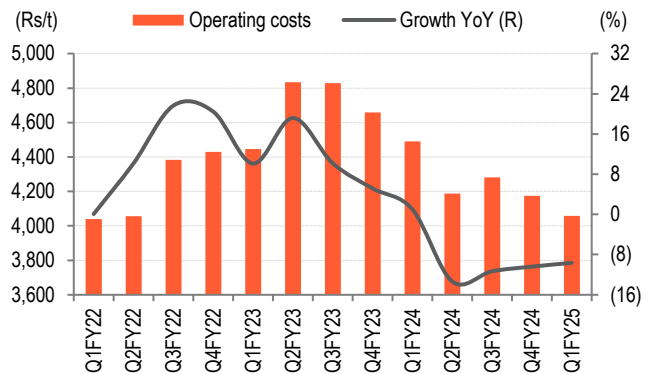
Source: Company, BOBCAPS Research

Fig 5 – EBITDA/t to be driven by cost savings



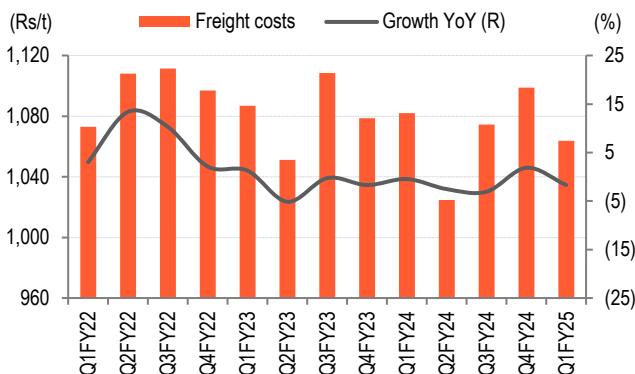
Source: Company, BOBCAPS Research

Fig 6 – Operating cost savings the only respite



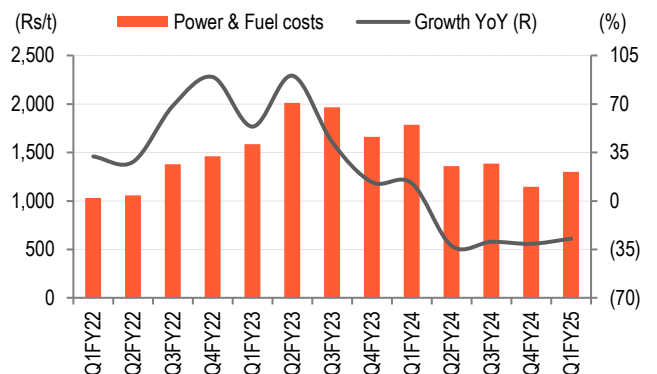
Source: Company, BOBCAPS Research

Fig 7 – Logistics cost softening, but not as estimated



Source: Company, BOBCAPS Research

Fig 8 – Fuel cost savings key for better performance



Source: Company, BOBCAPS Research

Valuation methodology

We reduce our FY25/FY26 EBITDA estimates by 2% each, but rationalise depreciation and interest leading to EPS revision of Rs 20.1/Rs 25.7 (earlier Rs 24.1/Rs 30.0). The aggressive capex drive has elevated TRCL's net debt to EBITDA to ~2.6x/2.5x for FY24/FY25-end and it is unlikely to get relief in the medium term. Cost-savings measures are commendable and offer respite to EBITDA margins. The demand revival expected following new budget provisions will unfold only in FY26 and beyond, however we believe the supply overhang in the region can only rejuvenate volume but not propel margins expansion.

The stock's current valuation of 11.0x FY26E EV/EBITDA is at a premium. We continue to apply an unchanged 10x target multiple and lower our TP to Rs 737 (previously Rs 763) implying a replacement cost of Rs 8.1bn/mnt – a 10% premium to the industry mean. We downgrade the stock to a SELL rating from HOLD.

Fig 9 – Revised estimates

| (Rs mn) | New | | | Old | | | Change (%) | | |
|--------------|----------|----------|----------|----------|----------|-------|------------|--------|-------|
| | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| Revenue | 1,04,362 | 1,20,407 | 1,32,046 | 1,06,694 | 1,23,402 | NA | (2.2) | (2.4) | NA |
| EBITDA | 18,412 | 21,606 | 24,166 | 18,838 | 22,004 | NA | (2.3) | (1.8) | NA |
| Adj PAT | 4,736 | 6,083 | 7,176 | 5,695 | 7,084 | NA | (16.8) | (14.1) | NA |
| Adj EPS (Rs) | 20.0 | 25.7 | 30.4 | 24.1 | 30 | NA | (16.8) | (14.2) | NA |

Source: BOBCAPS Research

Fig 10 – Key assumptions

| Parameter | FY24 | FY25E | FY26E | FY27E |
|------------------------|-------|--------|--------|--------|
| Volumes (mt) | 18.25 | 19.8 | 22.6 | 24.5 |
| Realisations (Rs/t) | 5,137 | 5,201 | 5,266 | 5,332 |
| Operating costs (Rs/t) | 4,282 | 4345.7 | 4377.0 | 4408.9 |
| EBITDA/t (Rs/t) | 836 | 931 | 957 | 988 |

Source: Company, BOBCAPS Research

Fig 11 – Valuation summary

| (Rs mn) | FY26E |
|------------------------------|------------|
| Target EV/EBITDA (x) | 10.24 |
| EBITDA | 21,606 |
| Target EV | 221,243 |
| Total EV | 221,243 |
| Net debt | 53,060 |
| Target market capitalisation | 1,68,183 |
| Target price (Rs/sh) | 737 |
| Weighted average shares (mn) | 236 |

Source: BOBCAPS Research| Note: Valuations based on 1-year forward includes FY27E earnings

Fig 12 – Peer comparison

| Ticker | Rating | TP (Rs) | EV/EBITDA (x) | | | EV/tonne (US\$) | | | ROE (%) | | | ROCE (%) | | |
|-------------|--------|------------|---------------|-------|-------|-----------------|-------|-------|---------|-------|-------|----------|-------|-------|
| | | | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E | FY26E | FY27E |
| TRCL IN | SELL | 737 | 12.8 | 11.0 | 10.0 | 134 | 133 | 135 | 6.4 | 7.8 | 8.5 | 8.6 | 9.9 | 10.4 |
| JKCE IN | HOLD | 4,431 | 22.8 | 17.2 | 10.8 | 225 | 165 | 137 | 17.2 | 19.6 | 20.3 | 16.0 | 16.6 | 17.3 |
| DALBHARA IN | HOLD | 2,062 | 12.9 | 12.5 | 8.5 | 82.0 | 87.0 | 86.0 | 6.0 | 8.5 | 8.9 | 7.3 | 9.5 | 9.7 |

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- Faster-than-estimated recovery in demand especially TRCL's key operating markets;
- change in management strategy with preference given to deleverage the balance sheet; and
- faster respite in fuel and logistics costs.

Financials

Income Statement

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------------------|---------------|---------------|-----------------|-----------------|-----------------|
| Total revenue | 81,004 | 93,223 | 1,04,362 | 1,20,407 | 1,32,046 |
| EBITDA | 11,156 | 15,250 | 18,412 | 21,606 | 24,166 |
| Depreciation | (5,044) | (6,359) | (7,523) | (8,068) | (8,675) |
| EBIT | 6,827 | 9,590 | 11,628 | 14,311 | 16,301 |
| Net interest inc./(exp.) | (2,405) | (4,155) | (5,204) | (6,091) | (6,623) |
| Other inc./(exp.) | 716 | 699 | 739 | 773 | 809 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 4,422 | 5,435 | 6,424 | 8,219 | 9,678 |
| Income taxes | (1,302) | (1,485) | (1,688) | (2,137) | (2,501) |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from assoc. | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 3,121 | 3,950 | 4,736 | 6,083 | 7,176 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 3,121 | 3,950 | 4,736 | 6,083 | 7,176 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Accounts payables | 6,373 | 9,910 | 7,300 | 8,391 | 9,162 |
| Other current liabilities | 16,389 | 20,166 | 21,823 | 23,334 | 24,965 |
| Provisions | 533 | 694 | 380 | 380 | 380 |
| Debt funds | 44,874 | 49,168 | 53,314 | 57,849 | 62,810 |
| Other liabilities | 9,285 | 10,304 | 10,820 | 11,360 | 11,929 |
| Equity capital | 236 | 236 | 236 | 236 | 236 |
| Reserves & surplus | 67,699 | 71,204 | 75,243 | 80,630 | 87,110 |
| Shareholders' fund | 67,881 | 71,388 | 75,480 | 80,866 | 87,346 |
| Total liab. and equities | 1,45,336 | 1,61,630 | 1,69,116 | 1,82,181 | 1,96,592 |
| Cash and cash eq. | 1,686 | 1,352 | 4,965 | 4,788 | 7,238 |
| Accounts receivables | 4,650 | 8,522 | 6,290 | 7,422 | 8,140 |
| Inventories | 8,823 | 9,823 | 13,438 | 15,175 | 16,641 |
| Other current assets | 6,604 | 5,539 | 7,684 | 9,834 | 11,489 |
| Investments | 1,957 | 2,178 | 2,404 | 2,404 | 2,404 |
| Net fixed assets | 1,01,022 | 1,19,705 | 1,24,598 | 1,33,305 | 1,41,413 |
| CWIP | 19,873 | 13,784 | 9,000 | 8,500 | 8,500 |
| Intangible assets | 721 | 728 | 738 | 753 | 768 |
| Deferred tax assets, net | 0 | 0 | 0 | 0 | 0 |
| Other assets | 0 | 0 | 0 | 0 | 0 |
| Total assets | 1,45,336 | 1,61,630 | 1,69,116 | 1,82,181 | 1,96,592 |

Cash Flows

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------------------|-----------------|-----------------|----------------|-----------------|-----------------|
| Cash flow from operations | 13,139 | 14,175 | 7,574 | 12,196 | 14,896 |
| Capital expenditures | (18,385) | (18,179) | (7,494) | (16,211) | (16,711) |
| Change in investments | 0 | (220) | (226) | 0 | 0 |
| Other investing cash flows | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing | (18,385) | (18,400) | (7,719) | (16,211) | (16,711) |
| Equities issued/Others | (690) | 2 | 52 | 0 | 0 |
| Debt raised/repaid | 5,575 | 4,294 | 4,146 | 4,534 | 4,962 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | (723) | (159) | (440) | (696) | (696) |
| Other financing cash flows | 1,010 | (247) | 0 | 0 | 0 |
| Cash flow from financing | 5,172 | 3,890 | 3,758 | 3,838 | 4,265 |
| Chg in cash & cash eq. | (74) | (334) | 3,613 | (176) | 2,450 |
| Closing cash & cash eq. | 1,686 | 1,352 | 4,964 | 4,788 | 7,238 |

Per Share

| Y/E 31 Mar (Rs) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS | 13.2 | 16.7 | 20.0 | 25.7 | 30.4 |
| Adjusted EPS | 13.2 | 16.7 | 20.0 | 25.7 | 30.4 |
| Dividend per share | 3.0 | 2.0 | 2.5 | 2.5 | 2.5 |
| Book value per share | 287.3 | 302.1 | 319.4 | 342.2 | 369.6 |

Valuations Ratios

| Y/E 31 Mar (x) | FY23A | FY24A | FY25E | FY26E | FY27E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 2.8 | 2.5 | 2.3 | 2.0 | 1.8 |
| EV/EBITDA | 20.3 | 15.2 | 12.8 | 11.0 | 10.0 |
| Adjusted P/E | 60.6 | 47.9 | 40.0 | 31.1 | 26.4 |
| P/BV | 2.8 | 2.7 | 2.5 | 2.3 | 2.2 |

DuPont Analysis

| Y/E 31 Mar (%) | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net profit/PBT) | 70.6 | 72.7 | 73.7 | 74.0 | 74.2 |
| Interest burden (PBT/EBIT) | 64.8 | 56.7 | 55.2 | 57.4 | 59.4 |
| EBIT margin (EBIT/Revenue) | 8.4 | 10.3 | 11.1 | 11.9 | 12.3 |
| Asset turnover (Rev./Avg TA) | 58.7 | 60.7 | 63.1 | 68.5 | 69.7 |
| Leverage (Avg TA/Avg Equity) | 2.1 | 2.2 | 2.3 | 2.2 | 2.3 |
| Adjusted ROAE | 4.7 | 5.7 | 6.4 | 7.8 | 8.5 |

Ratio Analysis

| Y/E 31 Mar | FY23A | FY24A | FY25E | FY26E | FY27E |
|--|--------|-------|-------|-------|-------|
| YoY growth (%) | | | | | |
| Revenue | 36.0 | 15.1 | 11.9 | 15.4 | 9.7 |
| EBITDA | (11.5) | 36.7 | 20.7 | 17.3 | 11.9 |
| Adjusted EPS | (65.1) | 26.6 | 19.9 | 28.4 | 18.0 |
| Profitability & Return ratios (%) | | | | | |
| EBITDA margin | 13.8 | 16.4 | 17.6 | 17.9 | 18.3 |
| EBIT margin | 8.4 | 10.3 | 11.1 | 11.9 | 12.3 |
| Adjusted profit margin | 3.9 | 4.2 | 4.5 | 5.1 | 5.4 |
| Adjusted ROAE | 4.7 | 5.7 | 6.4 | 7.8 | 8.5 |
| ROCE | 5.8 | 7.6 | 8.6 | 9.9 | 10.4 |
| Working capital days (days) | | | | | |
| Receivables | 21 | 33 | 22 | 23 | 23 |
| Inventory | 40 | 38 | 47 | 46 | 46 |
| Payables | 33 | 46 | 31 | 31 | 31 |
| Ratios (x) | | | | | |
| Gross asset turnover | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 |
| Current ratio | 0.9 | 0.8 | 1.1 | 1.2 | 1.3 |
| Net interest coverage ratio | 2.8 | 2.3 | 2.2 | 2.3 | 2.5 |
| Adjusted debt/equity | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |

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

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

BUY – Expected return >+15%

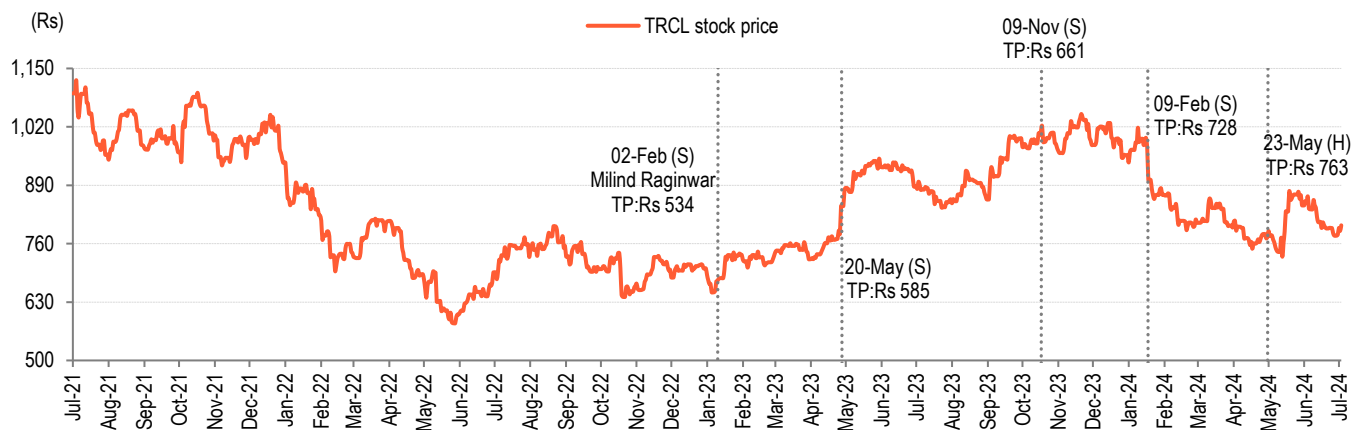
HOLD – Expected return from -6% to +15%

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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