

**SELL**  
 TP: Rs 726 | ▼ 17%

**THE RAMCO CEMENTS** | Cement

12 November 2024

**No respite from challenges; maintain SELL**

- Q2 revenue declined ~13% due to tepid volume growth and pricing pressures affecting realisations (down by 10%/5% YoY/QoQ)
- Lower cost structure, led by power and fuel, partially offset the dent in realisation, and supported EBITDA margin to stay at ~15% YoY
- We lower our FY25/FY26/FY27 EBITDA estimates by 8%/8%/2%, apply 10x (no change) target multiple and cut our TP to Rs 726. Maintain SELL

Milind Raginwar  
 research@bobcaps.in

**Weak demand impacts growth:** TRCL's Q2FY25 revenue declined by 13% YoY to Rs 20.4bn due to volume decline of 3% YoY to ~4.5mt amid weak demand in key regions. Volumes for the southern and eastern India markets were at 82:18. Despite better mix, realisations fell 10% YoY to Rs 4,539/t due to weak cement prices. Premium products share was 27%/23% (fell/flat YoY) for South/East India regions.

**Cost savings only partially offset weak realisations:** Operating cost/t declined ~8%/5% YoY/QoQ to Rs 3,844/t. Power and fuel cost/tonne in Q2FY25 fell sharply by ~18% YoY to Rs 1,121 (Rs 1,358 in Q2FY24) while logistics cost was flat YoY (down 4% QoQ) despite fall in lead distance. EBITDA fell by 21%/2% YoY/QoQ to Rs 3.1bn and margin slid 220bps YoY but remained flat QoQ to 15.3%. EBITDA/t fell 20%/5% YoY/QoQ to Rs 673/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 H1/Q2FY25, TRCL incurred a capex of Rs 5.4bn/2.6bn and has guided for a capex of Rs 12bn for FY25 which includes maintenance capex.

**EBITDA revised downward; maintain SELL:** We lower our FY25/FY26/FY27 EBITDA estimates by 8%/8%/2%, but rationalise depreciation and interest leading to EPS revisions of Rs 16.4/Rs 21.8/Rs 29.2 (earlier Rs 20/Rs 26/Rs 30). The aggressive capex drive has elevated TRCL's net debt to EBITDA to ~2.6x/2.5x FY24/FY25-end and is likely to stay elevated in the medium term. TRCL's cost savings measures are commendable and offer respite to EBITDA margins. However, TRCL's current valuation of 11.0x FY27E EV/EBITDA is at a premium. We continue to apply an unchanged 10x target multiple and revise our TP to Rs 726 (previously Rs 737) implying a replacement cost of Rs 8.1bn/mnt – a 10% premium to the industry mean. Maintain SELL rating.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	TRCL IN/Rs 870
Market cap	US\$ 2.4bn
Free float	58%
3M ADV	US\$ 6.1mn
52wk high/low	Rs 1,058/Rs 700
Promoter/FPI/DII	42%/7%/32%

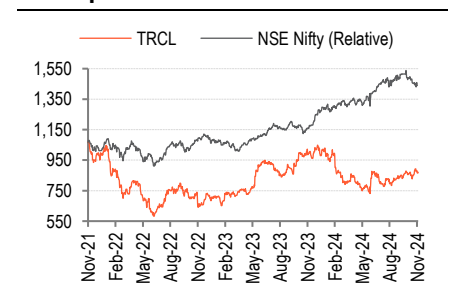
Source: NSE | Price as of 11 Nov 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	93,223	1,00,461	1,17,247
EBITDA (Rs mn)	15,250	16,977	19,985
Adj. net profit (Rs mn)	3,950	3,879	5,159
Adj. EPS (Rs)	16.7	16.4	21.8
Consensus EPS (Rs)	16.7	17.3	27.6
Adj. ROAE (%)	5.7	5.3	6.7
Adj. P/E (x)	52.1	53.0	39.9
EV/EBITDA (x)	16.3	14.9	12.7
Adj. EPS growth (%)	26.6	(1.8)	33.0

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Key metrics**

	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	2QFY25E	Deviation (%)
Volumes (million tonnes)	4.5	4.6	(2.6)	4.4	3.0	4.38	2.5
Cement realisations (Rs/t)	4,539	5,053	(10.2)	4,790	(5.2)	4,630	(2.0)
Operating costs (Rs/t)	3,844	4,188	(8.2)	4,057	(5.2)	3,901	(1.4)
EBITDA/t (Rs)	673	843	(20.2)	710	(5.2)	706	(4.8)

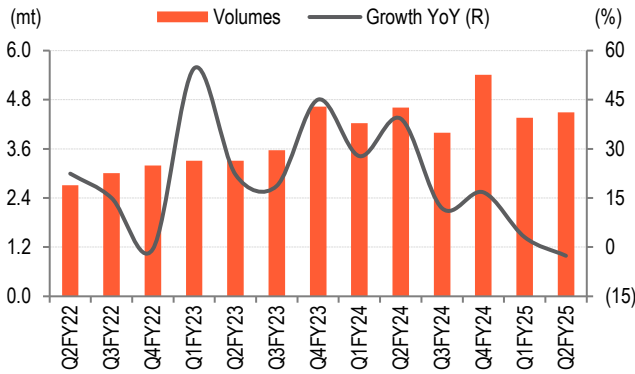
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly performance**

(Rs mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	2QFY25E	Deviation (%)
<b>Net Sales</b>	20,382	23,293	(12.5)	20,884	(2.4)	20,277	0.5
<b>Expenditure</b>							
Change in stock	(41.1)	281.9	(114.6)	(674.8)	0.0	(698.0)	-
Raw material	4,053	4,137	(2.0)	4,312	(6.0)	4,384	(7.5)
Purchased products	0	0	0.0	0	0	0	0
Power & fuel	5,031	6,262	(19.7)	5,666	(11.2)	5,391	(6.7)
Freight	4,571	4,724	(3.2)	4,638	(1.4)	4,809	(4.9)
Employee costs	1,360	1,385	(1.8)	1,367	(0.6)	1,310	3.8
Other exp	2,287	2,517	(9.1)	2,381	(3.9)	1,888	21.1
Total Operating Expenses	17,261	19,307	(10.6)	17,690	(2.4)	17,083	1.0
<b>EBITDA</b>	<b>3,121</b>	<b>3,986</b>	<b>(21.7)</b>	<b>3,194</b>	<b>(2.3)</b>	<b>3,194</b>	<b>(2.3)</b>
EBITDA margin (%)	15.3	17.1	(180bps)	15.3	2bps	15.7	(44bps)
Other Income	113	135	(16.2)	85	32.8	148	(23.7)
Interest	1,199	1,165	2.9	1,131	6.0	1,151	4.1
Depreciation	1,686	1,574	7.1	1,667	1.1	1,664	1.3
PBT	350	1,382	(74.7)	482	(27.4)	527	(33.6)
Non-recurring items	0	0	0.0	0	0.0	0	0.0
PBT (after non recurring items)	350	1,382	(74.7)	482	(27.4)	527	(33.6)
Tax	94	369	(74.5)	127	(25.8)	105	(10.8)
Reported PAT	27	27	17	26	56	20	685
<b>Adjusted PAT</b>	<b>256</b>	<b>1,013</b>	<b>(74.7)</b>	<b>355</b>	<b>(27.9)</b>	<b>421</b>	<b>(39.3)</b>
NPM (%)	256	1,013	(74.7)	355	(27.9)	421	(39.3)
<b>Adjusted EPS (Rs)</b>	<b>1.3</b>	<b>4.3</b>	<b>(309bps)</b>	<b>1.7</b>	<b>(44bps)</b>	<b>2.1</b>	<b>(82bps)</b>

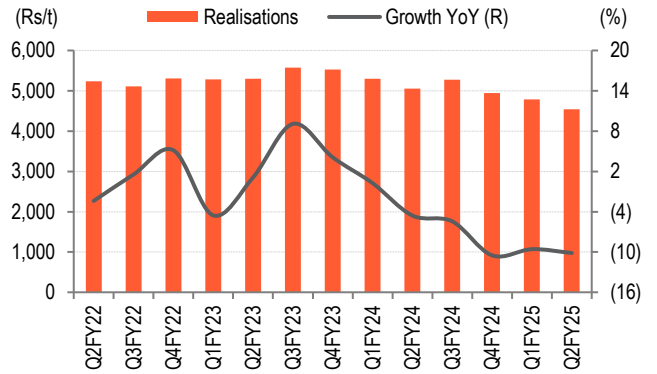
Source: Company, BOBCAPS Research

**Fig 3 – Volume fall arrested to ~2% by new capacities**



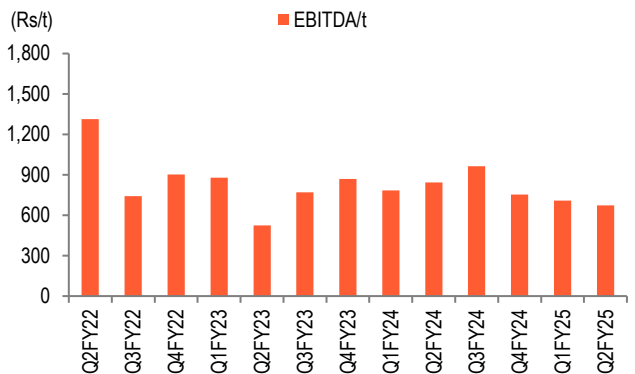
Source: Company, BOBCAPS Research

**Fig 4 – Pricing revival unlikely in the short term**



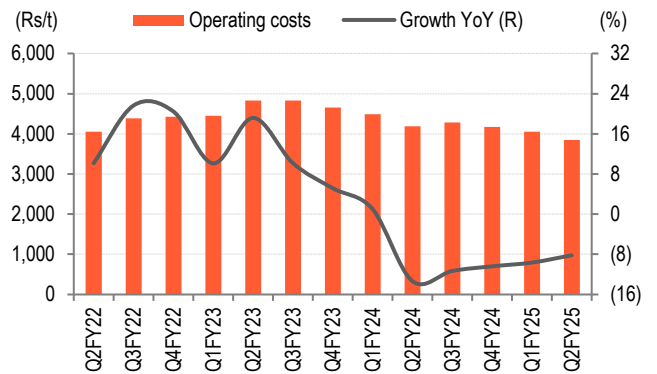
Source: Company, BOBCAPS Research

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



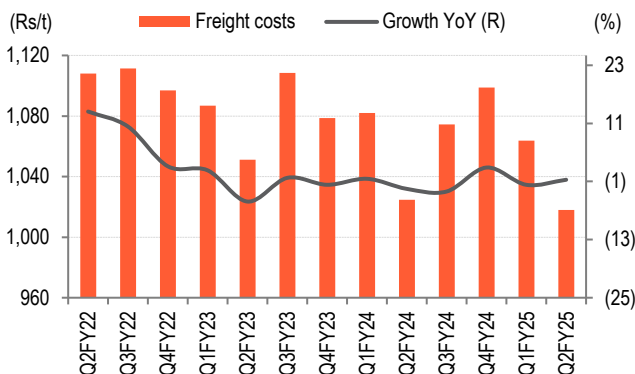
Source: Company, BOBCAPS Research

**Fig 6 – Operating cost savings the only respite**



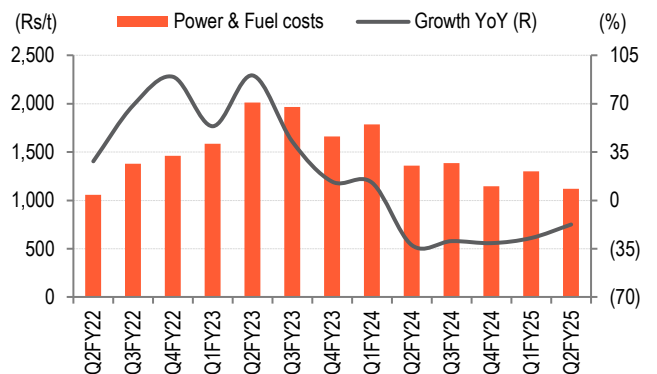
Source: Company, BOBCAPS Research

**Fig 7 – Logistics cost softening, but not as estimated**



Source: Company, BOBCAPS Research

**Fig 8 – Fuel cost savings signs of reaching bottom**



Source: Company, BOBCAPS Research

## Valuation methodology

We lower our FY25/FY26/FY27 EBITDA estimates by 8%/8%/2%, but rationalise depreciation and interest leading to EPS revisions of Rs 16.4/Rs 21.8/Rs 29.2 (earlier Rs 20/Rs 26/Rs 30). The aggressive capex drive has elevated TRCL's net debt to EBITDA to ~2.6x/2.5x FY24/FY25-end and is likely to stay elevated in the medium term. TRCL's 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.

However, the stock's current valuation of 11.0x FY27E EV/EBITDA is at a premium. We continue to apply an unchanged 10x target multiple and revise our TP to Rs 726 (previously Rs 737) implying a replacement cost of Rs 8.1bn/mnt – a 10% premium to the industry mean. Maintain SELL rating.

**Fig 9 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	1,00,461	1,17,247	1,30,124	1,04,362	1,20,407	1,32,046	(3.7)	(2.6)	(1.5)
EBITDA	16,977	19,985	23,587	18,412	21,606	24,166	(7.8)	(7.5)	(2.4)
Adj PAT	3,879	5,159	6,905	4,736	6,083	7,176	(18.1)	(15.2)	(3.8)
Adj EPS (Rs)	16.4	21.8	29.2	20	25.7	30.4	(17.9)	(15.1)	(3.9)

Source: BOBCAPS Research

**Fig 10 – Key assumptions**

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	17.6	19.0	22.0	24.1
Realisations (Rs/t)	5,240	5,201	5,266	5,332
Operating costs (Rs/t)	5,413	5,262	5,300	5,332
EBITDA/t (Rs/t)	866	892	910	978

Source: Company, BOBCAPS Research

**Fig 11 – Valuation summary**

(Rs mn)	FY26E
Target EV/EBITDA (x)	10.44
EBITDA	23,587
Target EV	246,253
Total EV	246,253
Net debt	57,377
Target market capitalisation	1,88,876
<b>Target price (Rs/sh)</b>	<b>726</b>
Weighted average shares (mn)	236

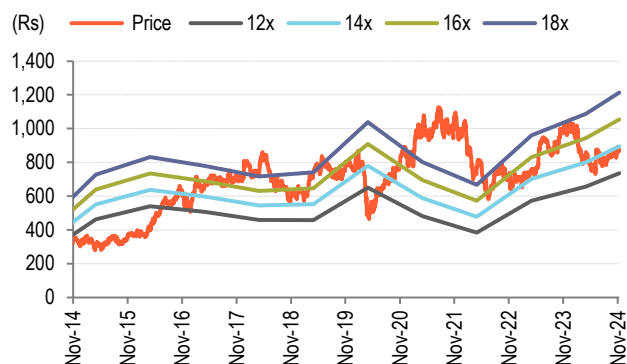
Source: BOBCAPS Research| Note: Valuations based on 1-year forward includes FY27E earnings

**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	726	12.8	11.0	10.0	134	133	135	5.3	6.7	8.4	7.6	8.8	10.2
JKCE IN	HOLD	4,190	20.3	16.3	13.6	225	165	137	15.9	18.0	18.5	14.1	15.6	16.6
DALBHARA IN	HOLD	1,816	15.1	9.8	7.8	82.0	87.0	86.0	4.1	6.7	8.6	5.6	8.0	9.5

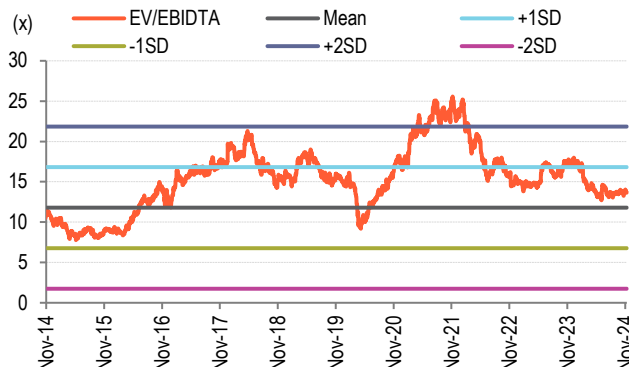
Source: BOBCAPS Research

**Fig 13 – Current valuations leave limited room for healthy upside**



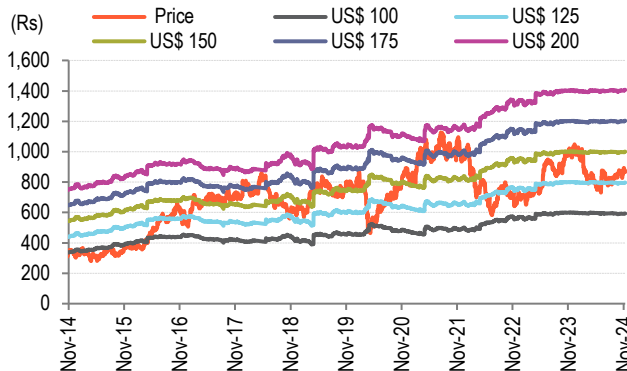
Source: Bloomberg, BOBCAPS Research

**Fig 14 – Valuations may further moderate in the short term**



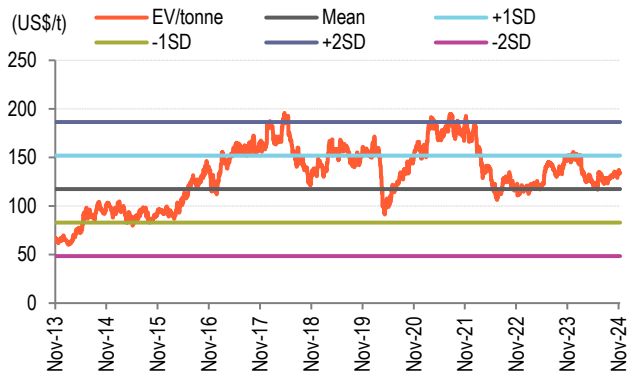
Source: Bloomberg, BOBCAPS Research

**Fig 15 – Replacement cost premium factoring in white cement business but could moderate**



Source: Bloomberg, BOBCAPS Research

**Fig 16 – Replacement cost premium likely to stay range bound**



Source: Bloomberg, BOBCAPS Research

### Key risks

Key upside risks to our estimates are:

- faster-than-estimated recovery in demand, especially in 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
<b>Total revenue</b>	<b>81,004</b>	<b>93,223</b>	<b>1,00,461</b>	<b>1,17,247</b>	<b>1,30,124</b>
EBITDA	11,156	15,250	16,977	19,985	23,587
Depreciation	(5,044)	(6,359)	(7,523)	(8,068)	(8,675)
EBIT	6,827	9,590	10,193	12,690	15,722
Net interest inc./(exp.)	(2,405)	(4,155)	(4,804)	(5,511)	(6,150)
Other inc./(exp.)	716	699	739	773	809
Exceptional items	0	0	0	0	0
EBT	4,422	5,435	5,389	7,179	9,572
Income taxes	(1,302)	(1,485)	(1,510)	(2,020)	(2,666)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>3,121</b>	<b>3,950</b>	<b>3,879</b>	<b>5,159</b>	<b>6,905</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>3,121</b>	<b>3,950</b>	<b>3,879</b>	<b>5,159</b>	<b>6,905</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	6,373	9,910	7,090	8,261	9,048
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	74,387	78,849	85,058
Shareholders' fund	67,881	71,388	74,623	79,085	85,295
<b>Total liab. and equities</b>	<b>1,45,336</b>	<b>1,61,630</b>	<b>1,68,050</b>	<b>1,80,269</b>	<b>1,94,427</b>
Cash and cash eq.	1,686	1,352	4,636	3,470	5,433
Accounts receivables	4,650	8,522	6,055	7,228	8,021
Inventories	8,823	9,823	12,936	14,776	16,399
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
<b>Total assets</b>	<b>1,45,336</b>	<b>1,61,630</b>	<b>1,68,050</b>	<b>1,80,269</b>	<b>1,94,427</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>13,139</b>	<b>14,175</b>	<b>7,245</b>	<b>11,207</b>	<b>14,409</b>
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
<b>Cash flow from investing</b>	<b>(18,385)</b>	<b>(18,400)</b>	<b>(7,719)</b>	<b>(16,211)</b>	<b>(16,711)</b>
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
<b>Cash flow from financing</b>	<b>5,172</b>	<b>3,890</b>	<b>3,758</b>	<b>3,838</b>	<b>4,265</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(74)</b>	<b>(334)</b>	<b>3,284</b>	<b>(1,166)</b>	<b>1,963</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,686</b>	<b>1,352</b>	<b>4,636</b>	<b>3,470</b>	<b>5,433</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	13.2	16.7	16.4	21.8	29.2
Adjusted EPS	13.2	16.7	16.4	21.8	29.2
Dividend per share	3.0	2.0	2.5	2.5	2.5
Book value per share	287.3	302.1	315.8	334.7	361.0

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.0	2.7	2.5	2.2	2.0
EV/EBITDA	21.7	16.3	14.9	12.7	11.0
Adjusted P/E	65.9	52.1	53.0	39.9	29.8
P/BV	3.0	2.9	2.8	2.6	2.4

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	70.6	72.7	72.0	71.9	72.1
Interest burden (PBT/EBIT)	64.8	56.7	52.9	56.6	60.9
EBIT margin (EBIT/Revenue)	8.4	10.3	10.1	10.8	12.1
Asset turnover (Rev./Avg TA)	58.7	60.7	60.9	67.3	69.5
Leverage (Avg TA/Avg Equity)	2.1	2.2	2.3	2.3	2.3
Adjusted ROAE	4.7	5.7	5.3	6.7	8.4

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	36.0	15.1	7.8	16.7	11.0
EBITDA	(11.5)	36.7	11.3	17.7	18.0
Adjusted EPS	(65.1)	26.6	(1.8)	33.0	33.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.8	16.4	16.9	17.0	18.1
EBIT margin	8.4	10.3	10.1	10.8	12.1
Adjusted profit margin	3.9	4.2	3.9	4.4	5.3
Adjusted ROAE	4.7	5.7	5.3	6.7	8.4
ROCE	5.8	7.6	7.6	8.8	10.2
<b>Working capital days (days)</b>					
Receivables	21	33	22	23	23
Inventory	40	38	47	46	46
Payables	33	46	31	31	31
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.5	0.5	0.6	0.6
Current ratio	0.9	0.8	1.1	1.1	1.2
Net interest coverage ratio	2.8	2.3	2.1	2.3	2.6
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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 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**  
 Brand Name: **BOBCAPS**  
 Trade Name: **www.barodaetrade.com**  
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**BUY** – Expected return >+15%

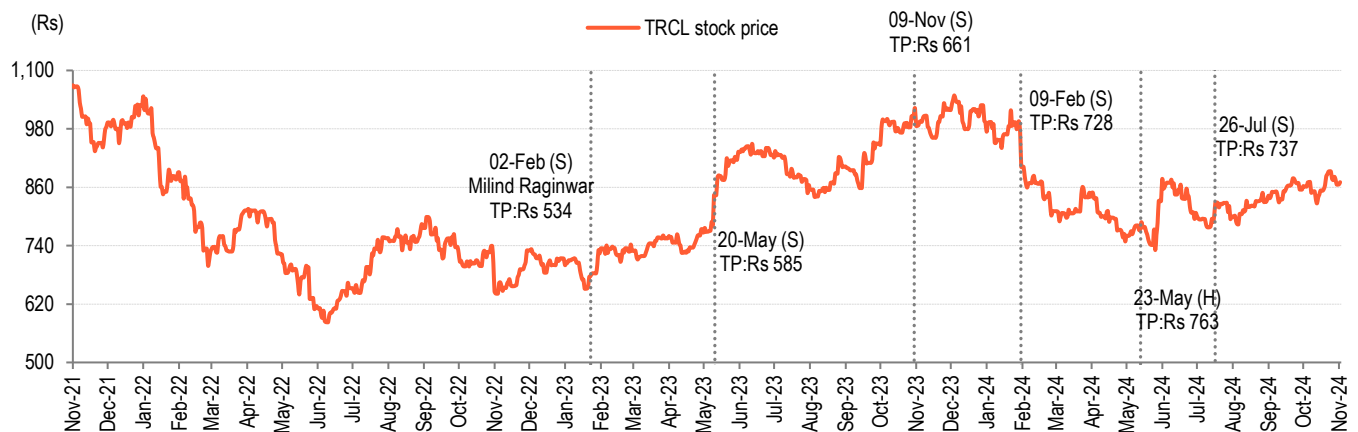
**HOLD** – Expected return from -6% to +15%

**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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