

**SELL**  
 TP: Rs 728 | ▼ 19%

**THE RAMCO CEMENTS** | Cement

09 February 2024

**Tepid quarter, high capex overhang – retain SELL**

- Q3 revenue growth muted at 6% YoY due to poor demand; pricing pressure dampens realisations
- Lower fuel cost aids EBITDA margin expansion to 18.8%, but earnings pickup came mainly off a soft base
- FY24/FY25 EBITDA estimates pared ~4% with deeper PAT cuts; TP revised to Rs 728 (vs. Rs 661) on rollover – maintain SELL

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**Revenue muted:** TRCL’s Q3FY24 revenue growth was muted at 6% YoY (-10% QoQ) to Rs 21.1bn as volumes grew just 10% YoY (-13% QoQ) to 4mt amid heavy rainfall, cyclones and festive holidays in key operating markets. The volume mix of southern and eastern markets was maintained at 75:25. Realisations fell 4% YoY (+4% QoQ) to Rs 5,272/t due to pricing pressure in both regions.

**Cost savings aid margins:** Operating cost/t moved down 10% YoY (+2% QoQ) to Rs 4,282/t as raw material-adjusted energy cost fell 18%/5% YoY/QoQ to Rs 2,207/t due to lower fuel cost and captive use of wind power. Logistics cost was flat YoY (+5% QoQ) at Rs 1,075/t as the impact of busy season railway surcharge was offset by lower lead distance. EBITDA grew 39% YoY (flat QoQ) to Rs 4bn and the margin jumped to 18.8% on a weak base. EBITDA/t grew 28%/14% YoY/QoQ to Rs 965.

**Expansion plans:** TRCL expanded clinker capacity by 0.65mt and 0.35mt at the Kurnool (Andhra Pradesh) and Ariyalur (Tamil Nadu) plants respectively in Q3FY24. It has also unlocked further plans to reach 26mt/19mt of cement/clinker capacities by FY26, indicating that its aggressive capex mode continues unabated. Capex includes a 0.9mt Odisha grinding unit line II (Q4FY24) and doubling of cement/clinker capacities in Kurnool to 3mt/6.3mt coupled with 15MW of additional WHRS capacities by Q4FY26.

**Earnings cut, retain SELL:** Factoring in the weak 9MFY24 performance, we lower our FY24/FY25 EBITDA estimates by ~4% each and cut PAT forecasts by a third. A relentless capex drive has elevated TRCL’s net debt to EBITDA to 3.2x as of Q3FY24, even as we expect the company to exhibit low return ratios and volatile margins in an oversupplied market. Considering these negatives, we find the stock’s current 12x EV/EBITDA multiple on FY26E unjustified and continue to apply an unchanged 10x target multiple. On rolling valuations over to FY26E, we have a revised TP of Rs 728 (earlier Rs 661). This implies a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry mean.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	TRCL IN/Rs 902
Market cap	US\$ 2.6bn
Free float	58%
3M ADV	US\$ 5.8mn
52wk high/low	Rs 1,058/Rs 702
Promoter/FPI/DII	42%/7%/32%

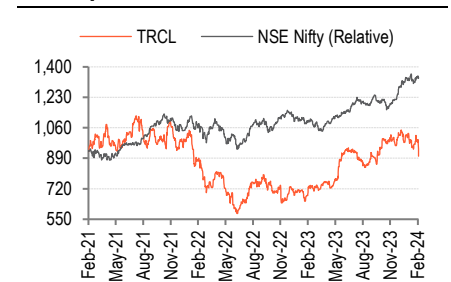
Source: NSE | Price as of 9 Feb 2024

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	81,004	93,710	1,06,694
EBITDA (Rs mn)	11,156	15,427	18,837
Adj. net profit (Rs mn)	3,435	4,013	5,271
Adj. EPS (Rs)	14.5	17.0	22.3
Consensus EPS (Rs)	14.5	23.0	34.0
Adj. ROAE (%)	5.2	5.8	7.2
Adj. P/E (x)	62.0	53.1	40.4
EV/EBITDA (x)	22.4	16.6	13.6
Adj. EPS growth (%)	(61.6)	16.8	31.3

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q3FY24	Q2FY24	Our view
Volumes	Volumes grew 10% YoY to 4mt in Q3FY24 and management has guided for ~17.5mt of volumes in FY24 (~5mt in Q4FY24). The share of premium products was ~27% and capacity utilisation stood at 74% (vs. 70% in Q3FY23).	Volumes grew 39% YoY to 4.6mt in Q2FY24 and management has guided for ~18mt of volumes in FY24. The share of premium products was ~28% and capacity utilisation stood at ~82% (vs. 66% in Q2FY23).	Despite a muted volume push, realisations weakened, indicating poor demand in key operating markets.
Margins	On a per tonne basis, raw material cost increased 3% YoY to Rs 970/t due to higher procurement cost. Energy cost declined 28% YoY to Rs 1,386/t aided by the use of wind power for captive consumption and softer fuel prices. Blended fuel consumption cost stood at US\$ 138/t (US\$ 191 in Q3FY23) and Rs 1.64/kcal (Rs 2.43).	On a per tonne basis, raw material cost increased 6% YoY to Rs 897/t due to higher procurement cost. Energy cost declined 32.5% YoY to Rs 1,358/t aided by the use of wind power for captive consumption and softer fuel prices. Blended fuel consumption cost stood at US\$ 148/t (US\$ 199 in Q2FY23) and Rs 1.75/kcal (Rs 2.58 in Q2FY23).	Pass-through of lower costs helped margins in Q3 but is unlikely to continue.
Capacity	TRCL has increased its clinker capacity by 0.65mt at Kurnool and by 0.35mt at Ariyalur through pyro process optimisation.  The company expects to double clinker capacity in Kurnool to 6.3mt, double cement capacity to 3mt and add 15MW of WHRS at an estimated capex of Rs 12.5bn, to be commissioned by Q4FY26. It has also identified opportunities for debottlenecking 1mt of cement capacity, which is expected to be carried out in FY25.  The 0.9mt grinding unit expansion at the Odisha plant is expected to be commissioned in Q4FY24. Expansion of dry mortar plants in Andhra Pradesh and Odisha are due in Q4FY24.	TRCL has spent Rs 7.5bn for phase-2 expansion at Kurnool plant (3mt cement, 2.25mt clinker) and expects the same to come online within 12-15 months.  0.9mt grinding unit expansion at the Odisha plant is expected to be commissioned by Q4FY24.  Expansion of dry mortar plants in Andhra Pradesh and Odisha is to be commissioned by Q3FY24.	New capacity addition announcements surprise as the company already has high net debt of Rs 50bn.
Green energy share	Overall green power share in Q3FY24 was 36% (from 20% in Q3FY23) and is expected to reach 42% in FY25 and 48% in FY26.	Overall green power share in Q2FY24 was 38% (from 22% in Q2FY23) and is expected to reach 40% in FY24 and 45% in FY25.	Green energy investments are a step in the right direction
Capex	Capex during Q3FY24 was ~Rs 3.85bn (including maintenance capex) and management has revised FY24 capex guidance to ~Rs 20bn (~Rs 17bn for FY25).	Capex during H1FY24 was Rs 12.2bn and management has guided for capex of Rs 16bn-16.5bn for FY24 (~Rs 18bn for FY25).	Capex could put additional burden on the balance sheet if earnings are impacted by weak demand.
Other relevant information	Net debt-to-EBITDA ratio stands at 3.2x in Q3FY24. Management expects net debt levels to remain the same post Kurnool plan expansion (funding through internal accruals).  A 10MW WHRS at Ramasamy Raja Nagar plant, Tamil Nadu, is due to be commissioned by Q4FY25 at a capex of ~Rs 1.5bn.  An 18MW TPP is to be commissioned for Kurnool plant in Q4FY24 followed by a railway siding in Q1FY25.	Management intends to deleverage the balance sheet and has guided for a peak net debt-to-EBITDA ratio of 2x.  Management indicated that TRCL is not entitled to tax incentives from any state government and that the EBITDA generated is without such incentives.  TRCL has acquired limestone-bearing land in Andhra Pradesh and Karnataka to augment its limestone reserves by 140mt.	High gearing adds to our discomfort on the stock.

Source: Company, BOBCAPS Research | TPP: Thermal Power Plant; WHRS: Waste Heat Recovery System

**Fig 2 – Key metrics**

(Rs)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Volumes (mt)	4.0	3.6	9.9	4.6	(13.3)
Cement realisations (Rs/t)	5,272	5,478	(3.8)	5,053	4.3
Operating costs (Rs/t)*	4,282	4,744	(9.7)	4,188	2.2
EBITDA (Rs/t)	965	756	27.6	843	14.4

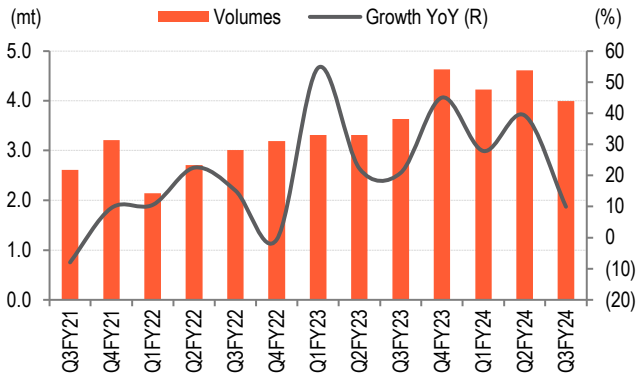
Source: Company, BOBCAPS Research | \*Aggregate cost

**Fig 3 – Quarterly performance**

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
<b>Net Sales</b>	<b>21,061</b>	<b>19,907</b>	<b>5.8</b>	<b>23,293</b>	<b>(9.6)</b>
Other operating income	0	181	0.0	0	0.0
<b>Expenditure</b>					
Change in stock	(596.1)	(654.2)	(8.9)	281.9	0.0
Raw material	3,876	3,435	12.8	4,137	(6.3)
Purchased products	0	0	0.0	0	0
Power & fuel	5,536	7,023	(21.2)	6,262	(11.6)
Freight	4,293	3,958	8.5	4,724	(9.1)
Employee costs	1,368	1,128	21.2	1,385	(1.2)
Other expenses	2,630	2,352	11.8	2,517	4.5
Total Operating Expenses	17,108	17,241	(0.8)	19,307	(11.4)
<b>EBITDA</b>	<b>3,954</b>	<b>2,846</b>	<b>38.9</b>	<b>3,986</b>	<b>(0.8)</b>
EBITDA margin (%)	18.8	14.2	460bps	17.1	166bps
Other Income	70	93	(25.3)	135	(48.3)
Interest	1,019	608	67.5	1,165	(12.6)
Depreciation	1,655	1,359	21.8	1,574	5.2
PBT	1,350	973	38.7	1,382	(2.3)
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,350	973	38.7	1,382	(2.3)
Tax	416	299	39.3	369	12.8
Tax Rate (%)	31	31	13	27	414
Reported PAT	934	674	38.5	1,013	(7.8)
<b>Adjusted PAT</b>	<b>934</b>	<b>674</b>	<b>38.5</b>	<b>1,013</b>	<b>(7.8)</b>
NPM (%)	4.4	3.4	105bps	4.3	8bps
<b>Adjusted EPS (Rs)</b>	<b>4.0</b>	<b>2.9</b>	<b>38.5</b>	<b>4.3</b>	<b>(7.8)</b>

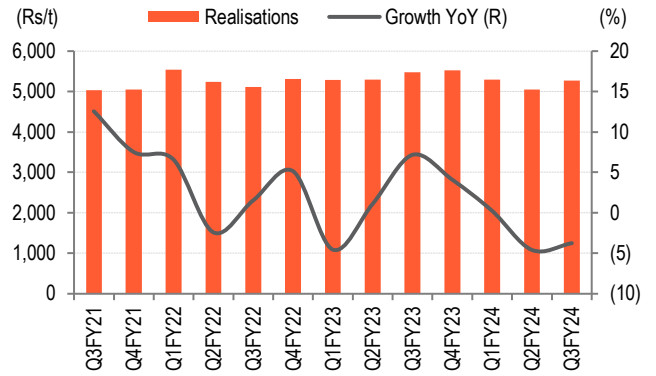
Source: Company, BOBCAPS Research

**Fig 4 – Volume weakness likely to continue**



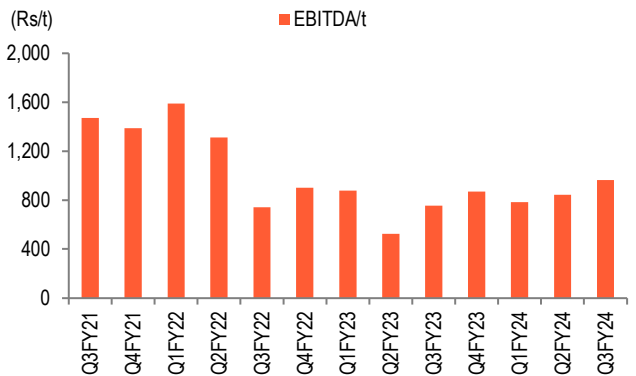
Source: Company, BOBCAPS Research

**Fig 5 – Pricing under pressure**



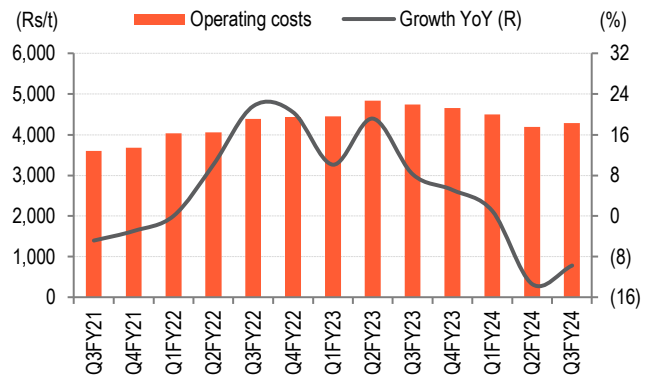
Source: Company, BOBCAPS Research

**Fig 6 – EBITDA/t at risk of high volatility**



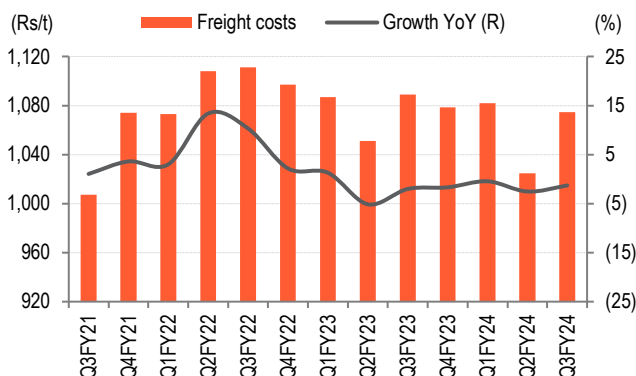
Source: Company, BOBCAPS Research

**Fig 7 – Operating cost savings the only silver lining**



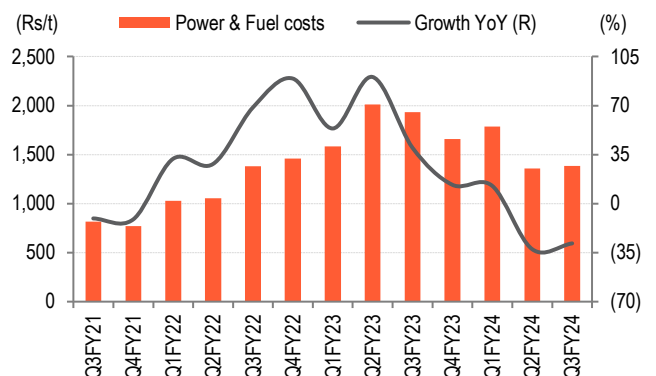
Source: Company, BOBCAPS Research

**Fig 8 – Logistics cost hardening a negative surprise**



Source: Company, BOBCAPS Research

**Fig 9 – Fuel cost headwinds can resurface**



Source: Company, BOBCAPS Research

## Valuation methodology

Factoring in the dull 9MFY24 performance, we lower our FY24/FY25 EBITDA estimates for TRCL by ~4% each and cut PAT forecasts ~30%. We now introduce FY26 projections and model for a three-year EBITDA/PAT CAGR of 25%/24%. A relentless capex drive has elevated TRCL's net debt to EBITDA to 3.2x as of Q3FY24, even as we expect the company to exhibit low return ratios and volatile margins in an oversupplied market. Though the newly announced capex is to be funded by internal accruals, balance sheet health could be at risk if a weak pricing environment dampens earnings.

Considering these negatives, we find the stock's current 12x EV/EBITDA multiple on FY26E unjustified and continue to apply an unchanged 10x target multiple. On rolling valuations over to FY26E, we have a revised TP of Rs 728 (earlier Rs 661), which implies a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry mean. Maintain SELL.

**Fig 10 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	93,710	106,694	123,402	97,124	111,386	NA	(3.5)	(4.2)	NA
EBITDA	15,427	18,837	22,004	16,043	19,558	NA	(3.8)	(3.7)	NA
Adj PAT	4,013	5,271	6,509	5,863	7,992	NA	(31.6)	(34.0)	NA
Adj EPS (Rs)	17.0	22.3	27.5	24.8	33.8	NA	(31.5)	(34.0)	NA

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Parameter	FY23	FY24E	FY25E	FY26E
Volumes (mt)	11.5	14.8	18.26	20.66
Realisations (Rs/t)	5,137	5,441	5,240	5,319
Operating costs (Rs/t)	4,084	4,698	4,441	4,444
EBITDA/t (Rs/t)	1,096	799	879	947

Source: Company, BOBCAPS Research

**Fig 12 – Valuation summary**

(Rs mn)	FY26E
Target EV/EBITDA (x)	10
EBITDA	22,004
Target EV	224,437
Total EV	224,437
Net debt	52,332
Target market capitalisation	172,106
<b>Target price (Rs/sh)</b>	<b>728</b>
Weighted average shares (mn)	236

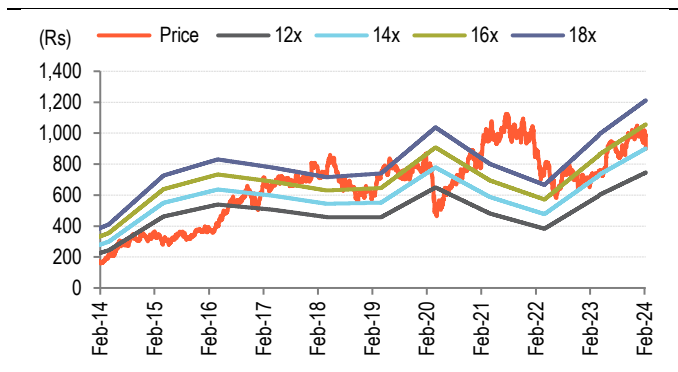
Source: BOBCAPS Research

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	728	22.9	16.6	13.8	134	133	135	5.2	5.8	7.2	5.8	7.7	9.2
DALBHARA IN	HOLD	2,443	17.9	16.0	13.0	130	109	105	4.7	5.5	8.2	5.4	6.6	9.1
JKCE IN	HOLD	4,121	31.0	19.5	14.7	160	161	161	16.2	18.6	18.6	18.0	20.7	19.8

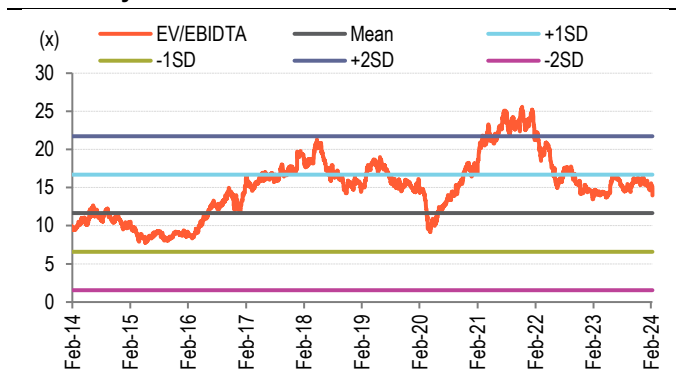
Source: BOBCAPS Research

Fig 14 – EV/EBITDA band: Valuations unjustifiably high



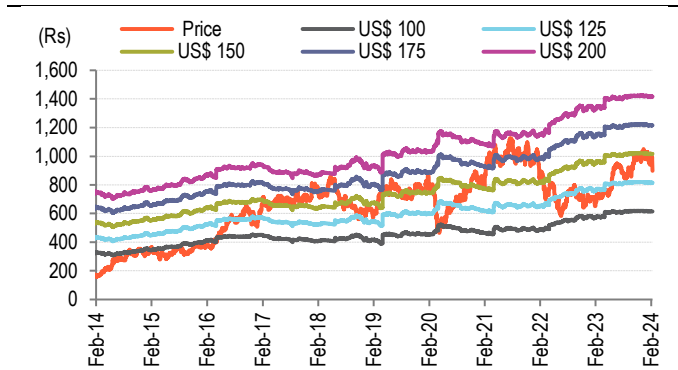
Source: Company, BOBCAPS Research

Fig 15 – EV/EBITDA 1Y fwd: Downward journey already underway



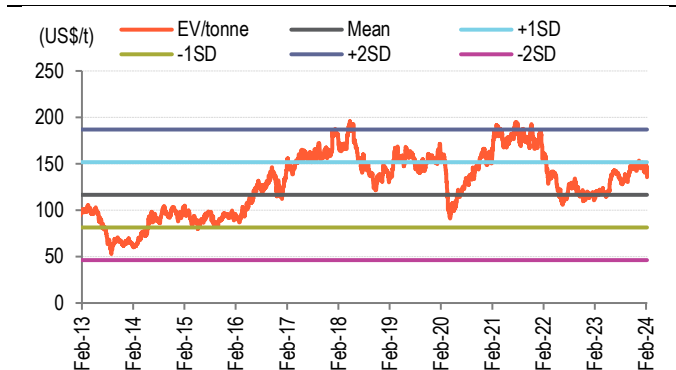
Source: Company, BOBCAPS Research

Fig 16 – EV/tonne: Replacement cost premium overdone



Source: Company, BOBCAPS Research

Fig 17 – EV/tonne 1Y fwd: Expect reversion to long-term average



Source: Company, BOBCAPS Research

### Key risks

Key upside risks to our estimates are:

- easing supply pressure in the company’s operating regions and a 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	6.0	2,628	2,542	HOLD
Ambuja Cements	ACEM IN	13.9	576	552	HOLD
Dalmia Bharat	DALBHARA IN	4.8	2,127	2,443	HOLD
JK Cement	JKCE IN	4.0	4,231	4,121	HOLD
JK Lakshmi Cement	JKLC IN	1.3	936	551	SELL
Orient Cement	ORCMNT IN	0.7	264	168	SELL
Shree Cement	SRCM IN	12.1	27,630	27,836	HOLD
Star Cement	STRCEM IN	1.0	195	193	HOLD
The Ramco Cements	TRCL IN	2.6	902	728	SELL
Ultratech Cement	UTCEM IN	34.9	9,946	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 9 Feb 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>59,567</b>	<b>81,004</b>	<b>93,710</b>	<b>1,06,694</b>	<b>1,23,402</b>
EBITDA	12,606	11,156	15,427	18,837	22,004
Depreciation	(4,008)	(5,044)	(6,688)	(7,752)	(8,510)
EBIT	9,137	6,827	9,496	11,877	14,323
Net interest inc./(exp.)	(1,124)	(2,091)	(4,036)	(4,739)	(5,535)
Other inc./(exp.)	540	716	757	792	829
Exceptional items	0	0	0	0	0
EBT	8,013	4,737	5,460	7,138	8,788
Income taxes	915	(1,302)	(1,447)	(1,866)	(2,279)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>8,928</b>	<b>3,435</b>	<b>4,013</b>	<b>5,271</b>	<b>6,509</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,928</b>	<b>3,435</b>	<b>4,013</b>	<b>5,271</b>	<b>6,509</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	4,892	6,373	6,649	7,462	8,612
Other current liabilities	12,462	16,389	16,825	17,945	19,152
Provisions	413	533	380	380	380
Debt funds	39,300	44,874	44,941	48,607	52,614
Other liabilities	8,240	9,285	9,085	9,539	10,016
Equity capital	236	236	236	236	236
Reserves & surplus	64,323	67,699	70,877	75,313	80,986
Shareholders' fund	65,195	67,881	71,113	75,549	81,223
<b>Total liab. and equities</b>	<b>1,30,502</b>	<b>1,45,336</b>	<b>1,48,992</b>	<b>1,59,483</b>	<b>1,71,997</b>
Cash and cash eq.	1,760	1,686	805	451	281
Accounts receivables	3,498	4,650	5,392	6,431	7,607
Inventories	8,333	8,823	12,323	13,739	15,552
Other current assets	7,097	6,604	7,845	9,990	11,140
Investments	1,957	1,957	1,984	1,999	1,999
Net fixed assets	76,809	1,01,022	1,11,921	1,17,142	1,26,171
CWIP	30,340	19,873	8,000	9,000	8,500
Intangible assets	707	721	722	732	747
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>1,30,501</b>	<b>1,45,336</b>	<b>1,48,992</b>	<b>1,59,483</b>	<b>1,71,997</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>10,127</b>	<b>13,453</b>	<b>5,074</b>	<b>10,107</b>	<b>12,871</b>
Capital expenditures	(17,999)	(18,385)	(5,649)	(13,278)	(16,211)
Change in investments	(1)	0	(26)	(15)	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(18,000)</b>	<b>(18,385)</b>	<b>(5,675)</b>	<b>(13,293)</b>	<b>(16,211)</b>
Equities issued/Others	636	(690)	54	0	0
Debt raised/repaid	8,168	5,575	66	3,667	4,006
Interest expenses	0	0	0	0	0
Dividends paid	(665)	(723)	(400)	(835)	(835)
Other financing cash flows	76	695	0	0	0
<b>Cash flow from financing</b>	<b>8,215</b>	<b>4,857</b>	<b>(279)</b>	<b>2,831</b>	<b>3,171</b>
<b>Chg in cash &amp; cash eq.</b>	<b>342</b>	<b>(75)</b>	<b>(880)</b>	<b>(355)</b>	<b>(169)</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,760</b>	<b>1,685</b>	<b>806</b>	<b>451</b>	<b>281</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	37.8	14.5	17.0	22.3	27.5
Adjusted EPS	37.8	14.5	17.0	22.3	27.5
Dividend per share	3.0	3.0	3.0	3.0	3.0
Book value per share	276.1	287.3	300.9	319.7	343.7

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	4.1	3.1	2.7	2.4	2.1
EV/EBITDA	19.2	22.4	16.6	13.6	11.8
Adjusted P/E	23.8	62.0	53.1	40.4	32.7
P/BV	3.3	3.1	3.0	2.8	2.6

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	111.4	72.5	73.5	73.9	74.1
Interest burden (PBT/EBIT)	87.7	69.4	57.5	60.1	61.4
EBIT margin (EBIT/Revenue)	15.3	8.4	10.1	11.1	11.6
Asset turnover (Rev./Avg TA)	48.8	58.7	63.7	69.2	74.5
Leverage (Avg TA/Avg Equity)	2.0	2.1	2.1	2.1	2.1
Adjusted ROAE	14.7	5.2	5.8	7.2	8.3

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	13.6	36.0	15.7	13.9	15.7
EBITDA	(17.3)	(11.5)	38.3	22.1	16.8
Adjusted EPS	17.1	(61.6)	16.8	31.3	23.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	21.2	13.8	16.5	17.7	17.8
EBIT margin	15.3	8.4	10.1	11.1	11.6
Adjusted profit margin	15.0	4.2	4.3	4.9	5.3
Adjusted ROAE	14.7	5.2	5.8	7.2	8.3
ROCE	8.7	5.8	7.7	9.2	10.3
<b>Working capital days (days)</b>					
Receivables	21	21	21	22	23
Inventory	51	40	48	47	46
Payables	38	33	31	31	31
<b>Ratios (x)</b>					
Gross asset turnover	0.5	0.5	0.6	0.6	0.6
Current ratio	1.2	0.9	1.1	1.2	1.2
Net interest coverage ratio	8.1	3.3	2.4	2.5	2.6
Adjusted debt/equity	0.6	0.7	0.6	0.6	0.6

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



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**BUY** – Expected return >+15%

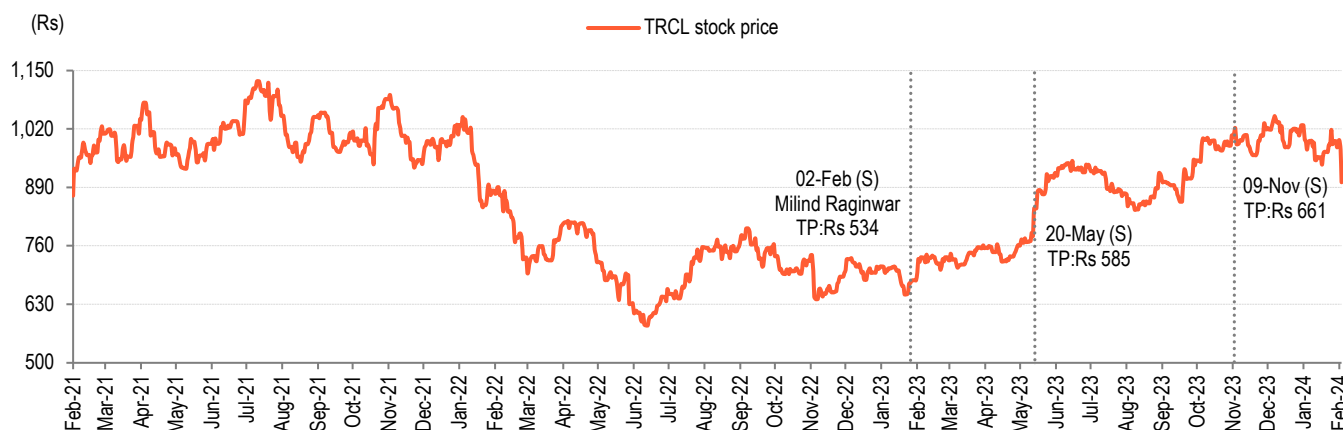
**HOLD** – Expected return from -6% to +15%

**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)



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