

**HOLD**

TP: Rs 763 | ▼ 3%

**THE RAMCO CEMENTS**

Cement

23 May 2024

**Steady quarter, aggressive capex plans; upgrade to HOLD**

- Q4 revenue growth muted at 4% YoY as weak demand in key operating regions continues; pricing pressure dampens realisations
- Lower fuel cost helps retain EBITDA margin YoY at ~16% but earnings weak on high depreciation and interest charge
- Maintain FY25E/FY26E EBITDA but revise PAT; TP raised to Rs 763 (vs. Rs 728); negatives priced into current valuations. Upgrade to HOLD

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**Revenue muted:** TRCL’s Q4FY24 revenue growth was muted at 4% YoY to Rs 26.7bn as volumes grew by a strong 17% YoY to 5.4mt to compete for market share in key operating markets. Volume mix of southern and eastern India markets was maintained at 76:24. Realisations fell 11% YoY to Rs 4,945/t due to pricing pressure in both regions. Share of premium products was 29%/20% in South/East.

**Cost savings guard margins:** Operating cost/t declined ~10% YoY (-2% QoQ) to Rs 4,174/t as raw material-adjusted energy cost fell 18% YoY (+5% QoQ) to Rs 2,295/t due to lower fuel cost and captive use of wind power. Logistics cost was up 2% YoY/QoQ at Rs 1,099/t as the benefit of lower lead distance was offset by the impact of busy season railway surcharge. EBITDA was flat YoY (+5% QoQ) to Rs 4.2bn and margin was guarded at ~16% YoY. EBITDA/t fell 14% YoY to Rs 753.

**Expansion plans:** TRCL continues with its plans to reach 26mt/19mt of cement/clinker capacities by FY26, indicating that its aggressive capex mode continues unabated. Clinker capacity in Kolimigundala will add to 6.3mt and cement capacity to 3mt with additional WHRS capacity of 15MW at capex of Rs 12.5bn by Q4FY26. Further, an 18MW thermal power plant (TPP) will be commissioned in Q1FY25 and railway siding in Q2FY25.

**EBITDA retained; earnings revised, upgrade to HOLD:** Factoring in the FY24 performance, we retain our FY25/FY26 EBITDA estimates, but rationalise depreciation and interest leading to EPS revision to Rs 24.1/Rs 30.0 (earlier Rs 22.3/Rs 27.5). The aggressive capex drive has elevated TRCL’s net debt to EBITDA to 3.0x FY24-end and with leveraged capex plans it is unlikely to get relief in the medium term. Cost-savings measures are commendable and offer respite to EBITDA margins. However, despite concerns the stock’s current valuations at 10.5x FY26E EV/EBITDA restrict further major downside. We continue to apply an unchanged 10x target multiple and raise our TP to Rs 763 (previously Rs 728). This implies a replacement cost of Rs 8.1bn/mnt – a 10% premium to the industry mean. Given limited downside we upgrade the stock to HOLD from SELL.

**Key changes**

Target	Rating
▲	▲

Ticker/Price	TRCL IN/Rs 788
Market cap	US\$ 2.3bn
Free float	58%
3M ADV	US\$ 6.6mn
52wk high/low	Rs 1,058/Rs 743
Promoter/FPI/DII	42%/7%/32%

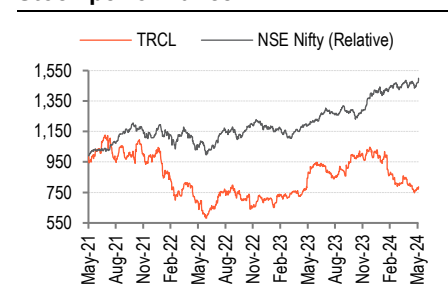
Source: NSE | Price as of 23 May 2024

**Key financials**

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	93,498	1,06,694	1,23,402
EBITDA (Rs mn)	15,525	18,838	22,004
Adj. net profit (Rs mn)	3,950	5,695	7,084
Adj. EPS (Rs)	16.7	24.1	30.0
Consensus EPS (Rs)	16.7	25.5	32.7
Adj. ROAE (%)	5.7	7.7	8.9
Adj. P/E (x)	47.2	32.7	26.3
EV/EBITDA (x)	14.7	12.4	10.5
Adj. EPS growth (%)	15.0	44.2	24.4

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

**Stock performance**



Source: NSE



**Fig 1 – Key metrics**

(Rs)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Volumes (mt)	5.4	4.6	16.8	4.0	35.3
Cement realisations (Rs/t)	4,945	5,526	(10.5)	5,272	(6.2)
Operating costs (Rs/t)*	4,174	4,658	(10.4)	4,282	(2.5)
EBITDA (Rs/t)	753	870	(13.5)	965	(21.9)

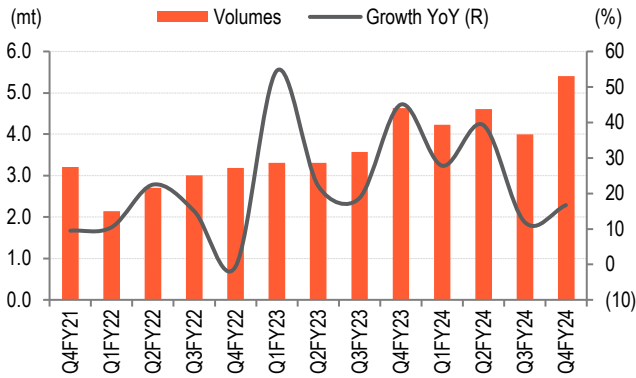
Source: Company, BOBCAPS Research | \*Aggregate cost

**Fig 2 – Quarterly performance**

(Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
<b>Net Sales</b>	<b>26,733</b>	<b>25,587</b>	<b>4.5</b>	<b>21,061</b>	<b>26.9</b>
Other operating income	0	110	(100.0)	0	0.0
<b>Expenditure</b>					
Change in stock	694.5	836.1	(16.9)	(596.1)	0.0
Raw material	5,519	4,473	23.4	3,876	42.4
Purchased products	0	0	0.0	0	0
Power & fuel	6,192	7,686	(19.4)	5,536	11.8
Freight	5,940	4,994	18.9	4,293	38.4
Employee costs	1,245	1,131	10.1	1,368	(9.0)
Other expenses	2,973	2,448	21.4	2,630	13.0
Total Operating Expenses	22,562	21,568	4.6	17,108	31.9
<b>EBITDA</b>	<b>4,171</b>	<b>4,019</b>	<b>3.8</b>	<b>3,954</b>	<b>5.5</b>
EBITDA margin (%)	15.6	16.1	(46bps)	18.8	(317bps)
Other Income	140	116	20.4	70	100.9
Interest	1,038	772	34.5	1,019	1.9
Depreciation	1,651	1,406	17.4	1,655	(0.3)
PBT	1,623	1,958	(17.1)	1,350	20.2
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	1,623	1,958	(17.1)	1,350	20.2
Tax	409	543	(24.7)	416	(1.7)
Tax Rate (%)	25	28	(256)	31	(562)
Reported PAT	1,214	1,414	(14.2)	934	30.0
<b>Adjusted PAT</b>	<b>1,214</b>	<b>1,414</b>	<b>(14.2)</b>	<b>934</b>	<b>30.0</b>
NPM (%)	4.5	5.5	(99bps)	4.4	11bps
<b>Adjusted EPS (Rs)</b>	<b>5.2</b>	<b>6.5</b>	<b>(20.4)</b>	<b>4.0</b>	<b>30.0</b>

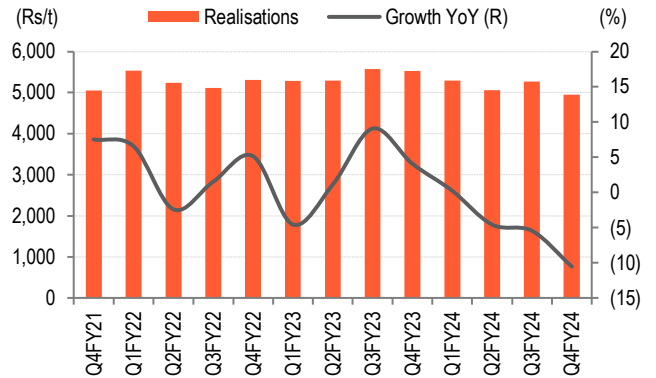
Source: Company, BOBCAPS Research

**Fig 3 – Volume growth to continue with aggressive capex**



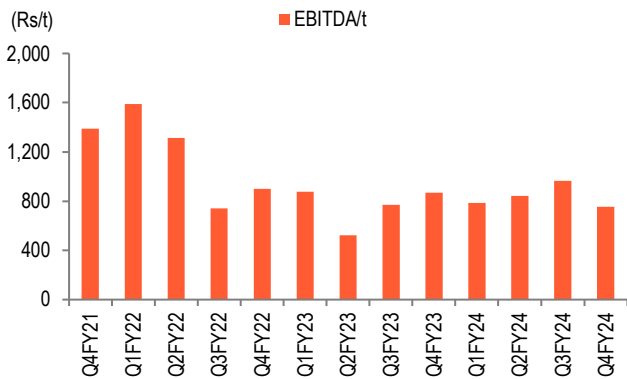
Source: Company, BOBCAPS Research

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



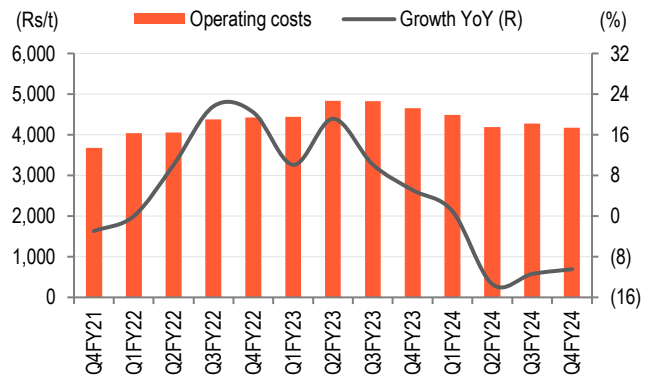
Source: Company, BOBCAPS Research

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



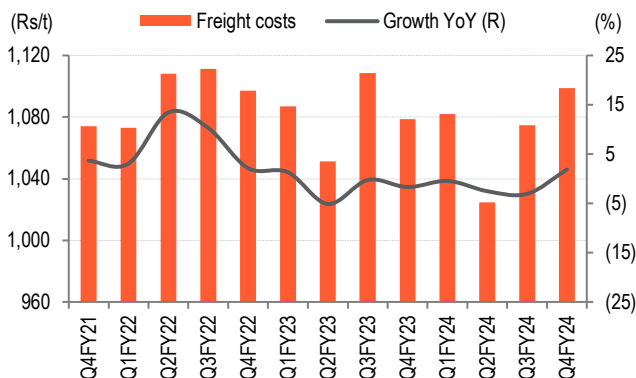
Source: Company, BOBCAPS Research

**Fig 6 – Operating cost savings the only silver lining**



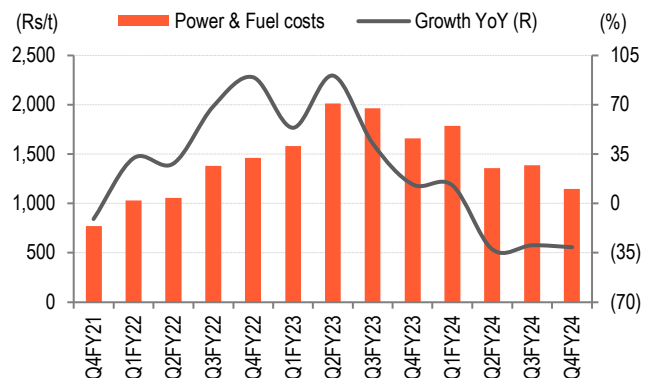
Source: Company, BOBCAPS Research

**Fig 7 – Logistics cost hardening a negative surprise**



Source: Company, BOBCAPS Research

**Fig 8 – Fuel cost savings key for better performance**



Source: Company, BOBCAPS Research

## Valuation methodology

Factoring in the FY24 performance, we retain our FY25/FY26 EBITDA estimates but rationalise depreciation and interest leading to EPS revision to Rs 24.1/Rs 30.0 (earlier Rs 22.3/Rs 27.5). Its aggressive capex drive has elevated TRCL's net debt to EBITDA to 3.0x FY24-end and with leveraged capex plans it is unlikely to get relief in the medium term. Cost savings measures are commendable and offer respite to EBITDA margins.

However, despite concerns the stock's current valuation of 10.5x FY26E EV/EBITDA restricts further major downside, we continue to apply an unchanged 10x target multiple and increase our TP to Rs 763 (from Rs 728). This implies a replacement cost of Rs 8.1bn/mt – a 10% premium to the industry mean. Given limited downside we upgrade the stock to HOLD from SELL.

**Fig 9 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	1,06,694	1,23,402	106,694	123,402	NA	NA
EBITDA	18,838	22,004	18,837	22,004	NA	NA
Adj PAT	5,695	7,084	5,271	6,509	8.0	9.0
Adj EPS (Rs)	24.1	30.0	22.3	27.5	8.0	9.0

Source: BOBCAPS Research

**Fig 10 – Key assumptions**

Parameter	FY23	FY24P	FY25E	FY26E
Volumes (mt)	11.5	18.25	18.26	20.66
Realisations (Rs/t)	5,137	5,140	5,240	5,319
Operating costs (Rs/t)	4,084	4,282	4,441	4,444
EBITDA/t (Rs/t)	1,096	836	879	947

Source: Company, BOBCAPS Research

**Fig 11 – Valuation summary**

(Rs mn)	FY26E
Target EV/EBITDA (x)	10
EBITDA	22,004
Target EV	229,726
Total EV	229,726
Net debt	49,522
Target market capitalisation	1,80,205
<b>Target price (Rs/sh)</b>	<b>763</b>
Weighted average shares (mn)	236

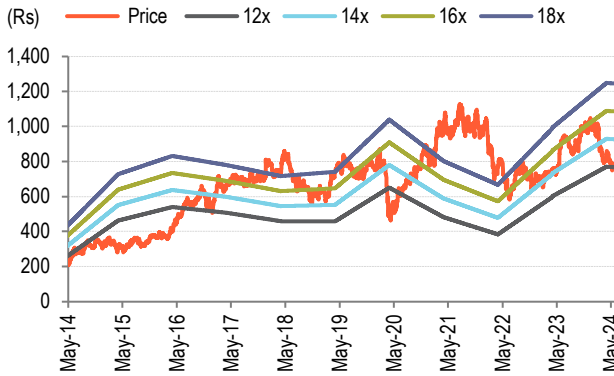
Source: BOBCAPS Research

**Fig 12 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E	FY24P	FY25E	FY26E
TRCL IN	SELL	763	14.7	12.4	10.5	134	133	135	5.7	7.7	8.9	7.6	9.3	10.7
JKCE IN	BUY	4,538	17.2	13.7	12.2	225.0	165.0	137.0	17.0	19.1	19.4	13.6	15.7	16.9
DALBHARA IN	BUY	2,346	12.8	11.8	8.1	82.0	87.0	86.0	5.3	6.6	9.5	6.6	7.7	10.8

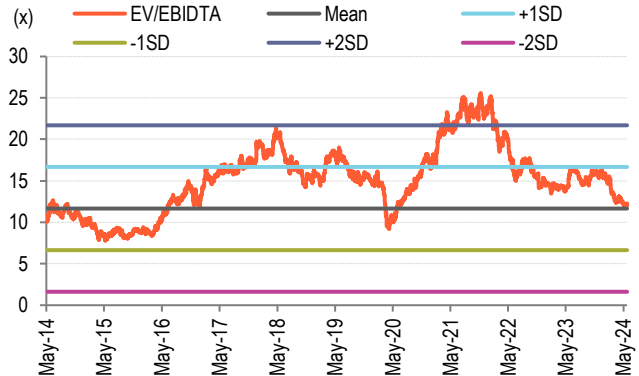
Source: BOBCAPS Research

**Fig 13 – EV/EBITDA band: Current valuation fairly reflects earnings**



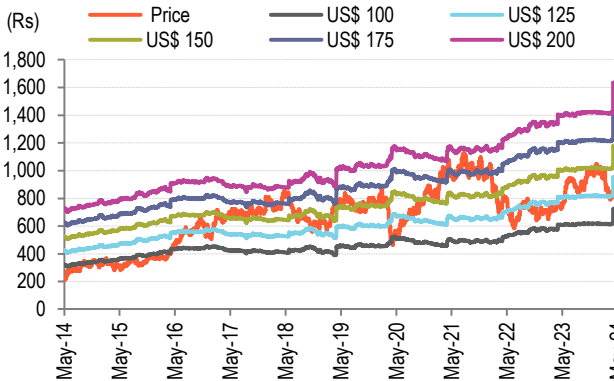
Source: Company, Bloomberg, BOBCAPS Research

**Fig 14 – EV/EBITDA 1Y fwd: Downward journey already underway**



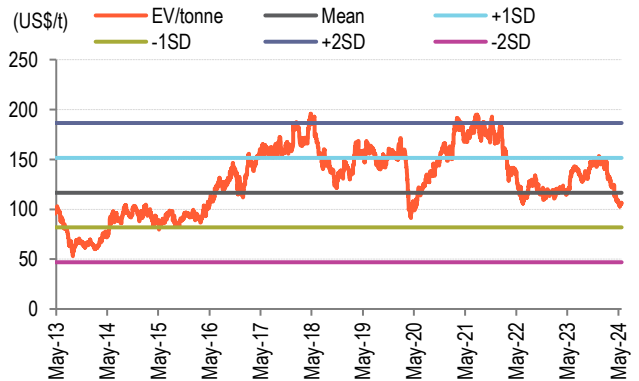
Source: Company, Bloomberg, BOBCAPS Research

**Fig 15 – EV/tonne: Replacement cost rationalisation in the recent past**



Source: Company, BOBCAPS Research

**Fig 16 – EV/tonne 1Y fwd**



Source: Company, BOBCAPS Research

### Key risks

Key risks to our estimates are:

- easing supply pressure in TRCL’s operating regions and a better pricing environment in South India, aiding operating efficiencies pose upside risk,
- change in management strategy towards leverage play offers downside risk, and
- faster-than-assumed softening of cost structure.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	6.0	2,616	2,657	HOLD
Ambuja Cements	ACEM IN	15.6	647	580	HOLD
Dalmia Bharat	DALBHARA IN	4.1	1,812	2,346	BUY
JK Cement	JKCE IN	3.7	3,968	4,538	BUY
JK Lakshmi Cement	JKLC IN	1.1	794	637	SELL
Orient Cement	ORCMNT IN	0.5	215	147	SELL
Shree Cement	SRCM IN	11.3	25,677	27,438	HOLD
Star Cement	STRCEM IN	1.1	220	193	HOLD
The Ramco Cements	TRCL IN	2.3	788	763	HOLD
Ultratech Cement	UTCEM IN	35.7	10,171	11,510	BUY

Source: BOBCAPS Research, NSE | Price as of 23 May 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Total revenue</b>	<b>59,567</b>	<b>81,004</b>	<b>93,498</b>	<b>1,06,694</b>	<b>1,23,402</b>
EBITDA	12,606	11,156	15,525	18,838	22,004
Depreciation	(4,008)	(5,044)	(6,359)	(7,188)	(7,744)
EBIT	9,137	6,827	9,590	12,441	15,090
Net interest inc./(exp.)	(1,124)	(2,091)	(4,155)	(4,739)	(5,535)
Other inc./(exp.)	540	716	424	792	829
Exceptional items	0	0	0	0	0
EBT	8,013	4,737	5,435	7,702	9,555
Income taxes	915	(1,302)	(1,485)	(2,008)	(2,471)
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>3,950</b>	<b>5,695</b>	<b>7,084</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,928</b>	<b>3,435</b>	<b>3,950</b>	<b>5,695</b>	<b>7,084</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	4,892	6,373	6,622	7,462	8,612
Other current liabilities	12,462	16,389	23,571	17,806	19,013
Provisions	413	533	380	380	380
Debt funds	39,300	44,874	49,365	48,607	52,614
Other liabilities	8,240	9,285	10,304	10,820	11,360
Equity capital	236	236	236	236	236
Reserves & surplus	64,323	67,699	71,205	76,204	82,592
Shareholders' fund	65,195	67,881	71,441	76,440	82,828
<b>Total liab. and equities</b>	<b>1,30,502</b>	<b>1,45,336</b>	<b>1,61,683</b>	<b>1,61,515</b>	<b>1,74,807</b>
Cash and cash eq.	1,760	1,686	1,352	2,482	3,092
Accounts receivables	3,498	4,650	8,522	6,431	7,607
Inventories	8,333	8,823	9,823	13,739	15,552
Other current assets	7,097	6,604	5,539	9,990	11,140
Investments	1,957	1,957	2,231	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	21,574	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>1,61,683</b>	<b>1,61,515</b>	<b>1,74,807</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Cash flow from operations</b>	<b>10,127</b>	<b>13,453</b>	<b>14,766</b>	<b>2,056</b>	<b>13,510</b>
Capital expenditures	(17,999)	(18,385)	(19,223)	296	(16,211)
Change in investments	(1)	0	(273)	232	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>(19,496)</b>	<b>528</b>	<b>(16,211)</b>
Equities issued/Others	636	(690)	54	0	0
Debt raised/repaid	8,168	5,575	4,490	(757)	4,006
Interest expenses	0	0	0	0	0
Dividends paid	(665)	(723)	(400)	(696)	(696)
Other financing cash flows	76	695	252	0	0
<b>Cash flow from financing</b>	<b>8,215</b>	<b>4,857</b>	<b>4,397</b>	<b>(1,454)</b>	<b>3,310</b>
<b>Chg in cash &amp; cash eq.</b>	<b>342</b>	<b>(75)</b>	<b>(334)</b>	<b>1,131</b>	<b>609</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,760</b>	<b>1,685</b>	<b>1,352</b>	<b>2,482</b>	<b>3,092</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	37.8	14.5	16.7	24.1	30.0
Adjusted EPS	37.8	14.5	16.7	24.1	30.0
Dividend per share	3.0	3.0	2.5	2.5	2.5
Book value per share	276.1	287.3	302.3	323.5	350.5

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	3.6	2.8	2.4	2.2	1.9
EV/EBITDA	17.1	20.0	14.7	12.4	10.5
Adjusted P/E	20.8	54.2	47.2	32.7	26.3
P/BV	2.9	2.7	2.6	2.4	2.2

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	111.4	72.5	72.7	73.9	74.1
Interest burden (PBT/EBIT)	87.7	69.4	56.7	61.9	63.3
EBIT margin (EBIT/Revenue)	15.3	8.4	10.3	11.7	12.2
Asset turnover (Rev./Avg TA)	48.8	58.7	60.9	66.0	73.4
Leverage (Avg TA/Avg Equity)	2.0	2.1	2.2	2.2	2.1
Adjusted ROAE	14.7	5.2	5.7	7.7	8.9

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	13.6	36.0	15.4	14.1	15.7
EBITDA	(17.3)	(11.5)	39.2	21.3	16.8
Adjusted EPS	17.1	(61.6)	15.0	44.2	24.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	21.2	13.8	16.6	17.7	17.8
EBIT margin	15.3	8.4	10.3	11.7	12.2
Adjusted profit margin	15.0	4.2	4.2	5.3	5.7
Adjusted ROAE	14.7	5.2	5.7	7.7	8.9
ROCE	8.7	5.8	7.6	9.3	10.7
<b>Working capital days (days)</b>					
Receivables	21	21	33	22	23
Inventory	51	40	38	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	0.8	1.3	1.3
Net interest coverage ratio	8.1	3.3	2.3	2.6	2.7
Adjusted debt/equity	0.6	0.7	0.7	0.6	0.6

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

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**BUY** – Expected return >+15%

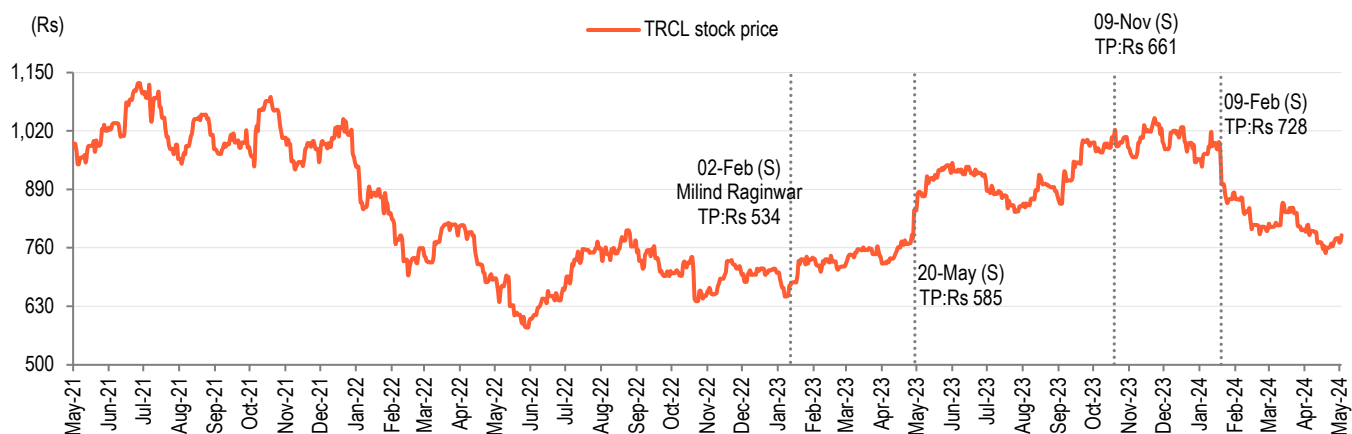
**HOLD** – Expected return from -6% to +15%

**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)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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