The Ramco Cements

09 February 2024

Flood hurt Q3; Recent correction led to an upgrade

RESULT UPDATE

Sector: Cement | **Rating: BUY**

CMP: Rs 901 | **Target Price: Rs 1,146**

Stock Info	
Sensex/Nifty	71,595/ 21,782
Bloomberg	TRCL IN
Equity shares (mn)	236
52-wk High/Low	Rs.1,057/ 701
Face value	Rs.1
M-Cap	Rs.213Bn/ USD 2.5Bn
3-m Avg traded value	USD 5.9Mn

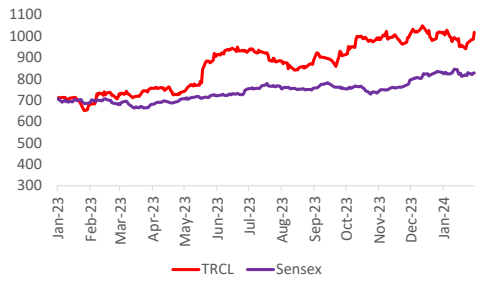
Financial Snapshot (Rs bn)

Y/E Mar	FY24E	FY25E	FY26E
Sales	89.2	100.2	111.3
EBITDA	15.9	18.8	21.3
PAT	4.3	5.7	7.2
EPS (Rs)	18.1	24.1	30.6
PE (x)	49.7	37.4	29.4
EV/EBITDA (x)	16.6	14.3	12.6
RoE (%)	6.2	7.8	9.2
RoCE (%)	7.8	8.9	10.0
Dividend yield (%)	0.5	0.5	0.5

Shareholding pattern (%)

	Dec-23	Sep-23	Jun-23
Promoter	42.1	42.1	42.1
–Pledged	-	-	-
FII	7.9	7.9	8.0
DII	32.9	33.4	32.4
Others	17.0	16.6	17.5

Stock Performance (1-year)



Ramco Cements' Q3FY24 performance was lackluster with Revenue/EBITDA/PAT coming in below expectations owing to lower-than-expected volume and higher expenses. Revenue up by 4.8% YoY (-9.6% QoQ) to Rs21.1bn vs our est. of Rs24.0bn. This growth was supported by modest volumes; however, a drop in realizations offset this positive impact. Volume up by 10.0% YoY (-13.2% QoQ) to 4.0mt (our est. 4.7 mt). Blended Realization/tn declined 4.7% YoY but were up 4.2% QoQ to Rs5,265. EBITDA was up by 38.9% YoY (-0.8% QoQ) to Rs4.0bn; 19% below our est of Rs4.9bn. EBITDA/tn rose 26.3% YoY to Rs988 supported by reduction in P&F cost; however most other cost heads increased YoY. Cement capacity utilization for the quarter stood at 74%. The share of blended cement was 67% while premium products accounted for 29% of the portfolio. We cut our EBITDA estimates by 5.7%/3.5% for FY24E/FY25E on the back of below estimate results. We introduce FY26E and forecast a Revenue/EBITDA/PAT CAGR of 11%/22%/28% during FY23-FY26E. We have rolled over our valuation to FY26E and valued TRCL at an EV/EBITDA multiple of 15x arriving at a new TP of Rs1,146, marginally lower from earlier Rs1,148. However, the stock has corrected 12% since our last downgrade (9 Nov 2023) and therefore we upgrade the stock to a BUY from earlier HOLD. Demand uptick and improved operational performance will be key triggers for a further positive re-rating.

Cost reduction led by softening energy prices

During Q3FY24, the blended fuel consumption per ton for cement was Rs.1.64/kcal as against Rs.2.43/kcal during Q3FY23. Finance cost & Depreciation increased due to commissioning of units in Kolimigundla, R R Nagar Line III and 2 Dry Mortar Plants. Avg. lead distance for Q3FY24 was 282kms (vs 299kms in Q2FY23 & 259kms in Q2FY24). The company is making positive strides towards ramping up its green energy share which is expected to rope in further cost savings.

Capex Update: To Invest Rs20/17 bn in FY24E/FY25E

In Kolimigundala, TPP of 18 MW will be commissioned during March 2024 and railway siding will be commissioned during June 2024. 2 units in AP & Odisha will be commissioned during March 2024 for the expansion of Dry Mortar Plant. Odisha Grinding Unit Line II with cement capacity of ~ 1mtpa is expected to commission during March 2024. Clinker capacity increased by 0.65mtpa and 0.35mtpa during Q3FY24 through debottlenecking in Kolimigundala and Ariyalur respectively. The Company has identified opportunities for debottlenecking of cement capacity aggregating to 1mtpa. With this, the aggregate installed cement capacity would reach 26mtpa for cement by FY26.

Upgrade the stock to a BUY with a TP of Rs1,146

Capacity expansion for Ramco is planned to grow at 7.5-8% YoY, though slower than its counterparts. We foresee demand to remain healthy in the company's core markets. We forecast a Revenue/EBITDA/PAT CAGR of 12%/19%/22% during FY23-FY26E and rollover our valuation to FY26E. We value TRCL at 15x FY26E EV/EBITDA and upgrade the stock to a BUY from HOLD with a TP of Rs1,146.

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Investors are advised to refer through disclosures made at the end of the research report.

Con Call Highlights:

Capacity Expansion:

- Maintenance capex is expected to be in the range of Rs2-2.5bn.
- Capex guidance for the current year is Rs20bn and next year is Rs17bn which will largely be funded through internal accruals.
- Kurnool Capacity will account for Rs7.5bn
- Clinker volumes for 9MFY24 stood at 10.5mtpa. Clinker conversion ratio stood at ~1.3x. Clinker utilization levels were 90%.
- Company estimates loss in volume to be ~0.5mtpa in Q3 due to the impact of flood and holidays.

Volume:

- Company expects to do a volume of 5mtpa in Q4FY24 totalling to 17.5mtpa for FY24E.
- Expects volume of ~19-20mtpa in FY25E.

Price:

- Some pockets have seen price drop of Rs5-10/bag.

Misc:

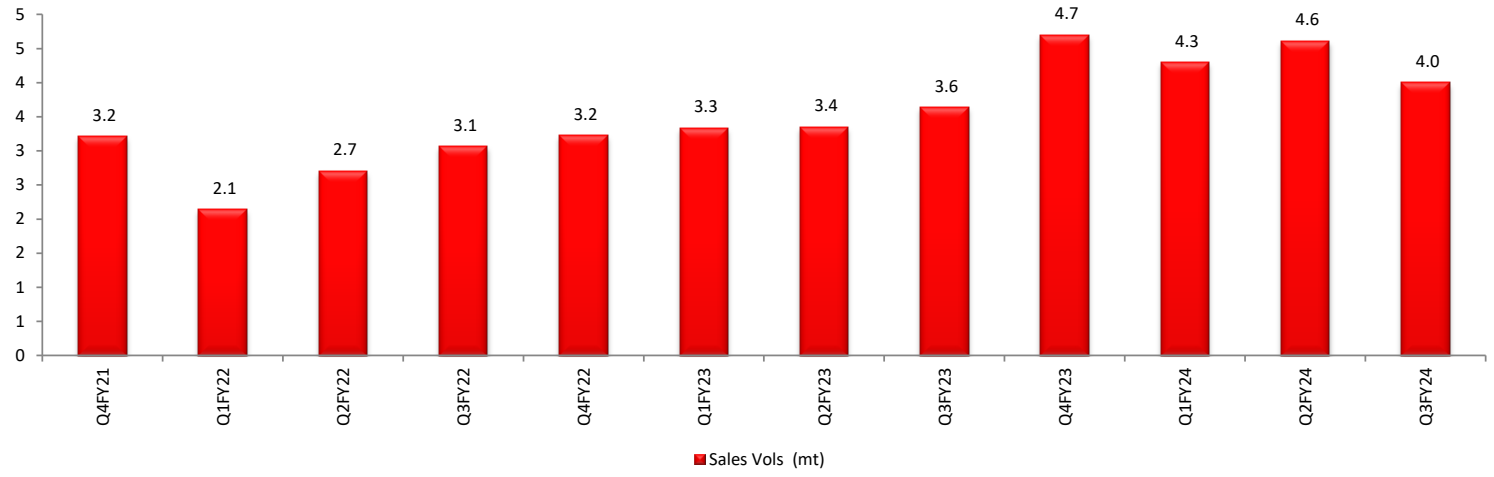
- The company is confident of maintaining net debt levels below Rs50bn. Company can monetize non-core assets to the tune of Rs5-6bn if necessary.
- The company propose to establish a WHRS of 10 MW capacity at its Ramasamy Raja Nagar plant, at a cost of Rs1.5bn to be commissioned by March 2025. With the establishment of WHRS at Ramasamy Raja Nagar, the aggregate installed capacity of company's WHRS would increase from 43 MW to 53 MW by FY25.
- The share of green power is expected to reach 42% of the total energy consumption by end of FY25 and 48% by end of FY26.

Exhibit 1: Result snapshot

Particulars (Rs bn)	Q3FY24	Q3FY23	Q2FY24	YoY (%)	QoQ(%)
Revenue (Incl.OOI)	21.1	20.1	23.3	4.8	(9.6)
EBITDA	**4.0**	**2.8**	**4.0**	**38.9**	**(0.8)**
EBITDA Margin (%)	*18.8*	*14.2*	*17.1*	*460 bps*	*166 bps*
PBT	**1.3**	**1.0**	**1.4**	**38.8**	**(2.3)**
Tax	0.4	0.3	0.4	37.7	11.5
Effective Tax Rate (%)	*30.4*	*30.7*	*26.7*	*(25 bps)*	*376 bps*
Recurring PAT	**0.9**	**0.7**	**1.0**	**39.3**	**(7.3)**
Extord. Items	-	-	-	-	-
Reported PAT	**0.9**	**0.7**	**1.0**	**39.3**	**(7.3)**
PAT Margin (%)	*4.5*	*3.4*	*4.3*	*110 bps*	*11 bps*
Blended Realization (Rs/tn)	5,265	5,523	5,053	(4.7)	4.2
Total volumes (mt)	4.0	3.6	4.6	10.0	(13.2)
Capacity Utilization (%)	*73*	*75*	*84*	*(226 bps)*	*(1109 bps)*
Blended EBITDA (Rs/tn)	**988**	**783**	**865**	**26.3**	**14.3**
Per ton cost (Rs)	**Q3FY24**	**Q3FY23**	**Q2FY24**	**YoY (%)**	**QoQ(%)**
Raw Material Cost	820	765	959	7.2	(14.5)
Staff Cost	342	323	300	5.9	13.8
Power and Fuel Cost	1,384	1,931	1,358	(28.3)	1.9
Freight Cost	1,073	1,088	1,025	(1.4)	4.7
Other Expenditure	658	634	546	3.7	20.4
Total Cost	**4,277**	**4,741**	**4,188**	**(9.8)**	**2.1**

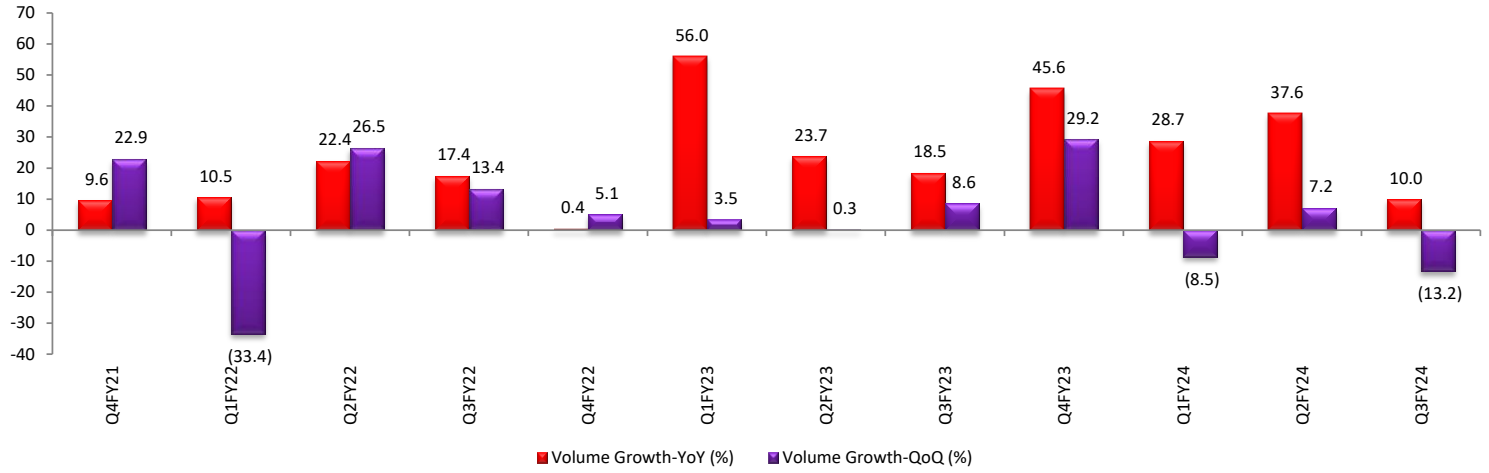
Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly sales volumes



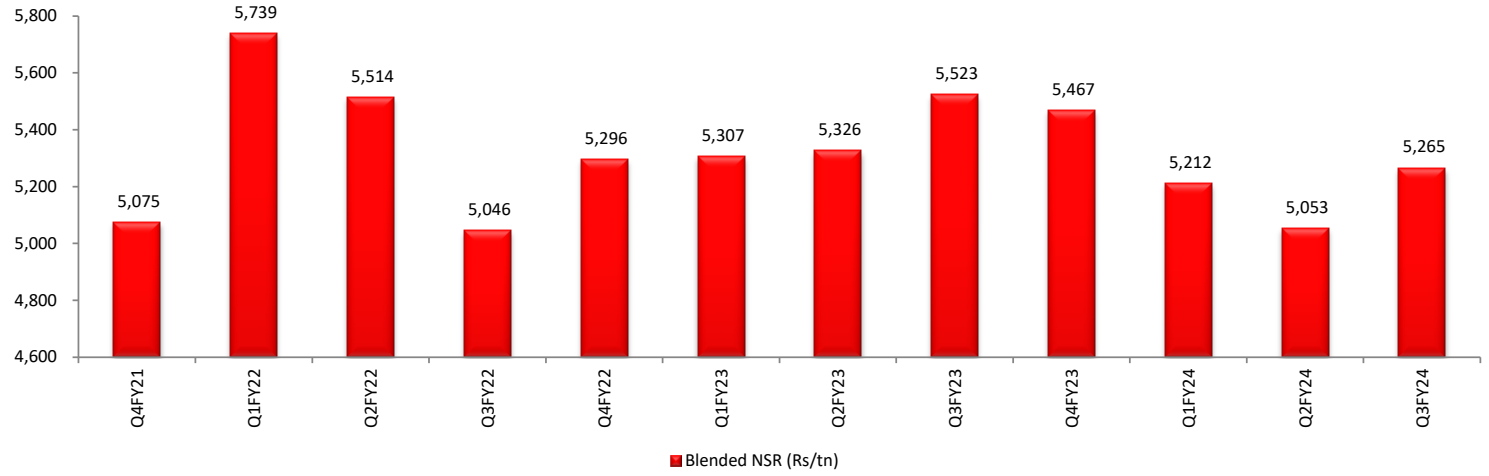
Source: Company, Systematix Institutional Research

Exhibit 3: Change in volume YoY and QoQ



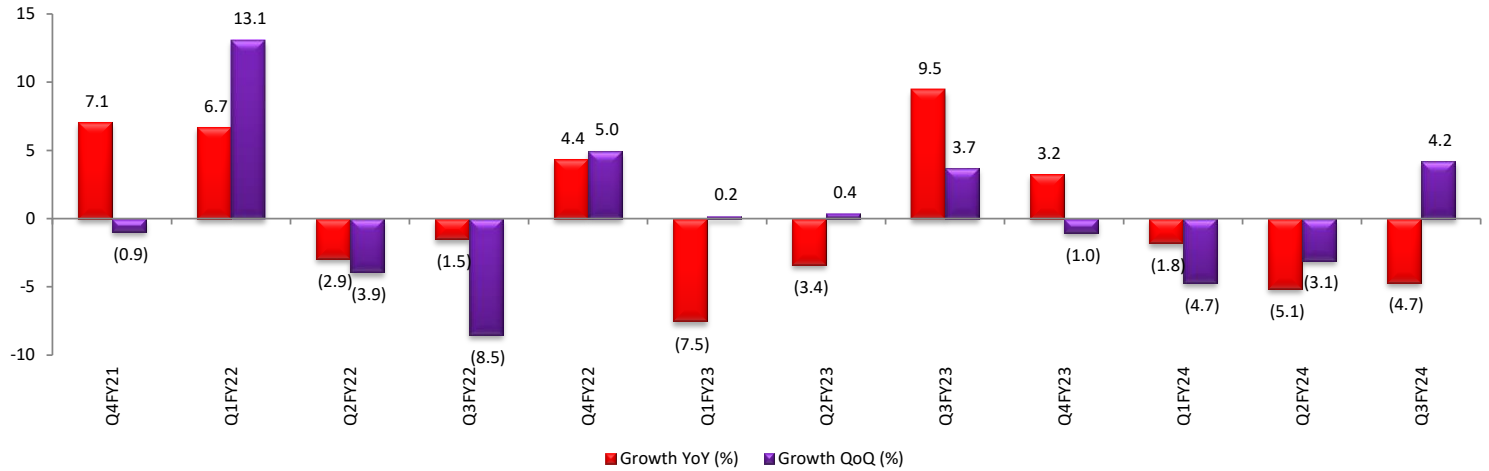
Source: Company, Systematix Institutional Research

Exhibit 4: Quarterly NSR



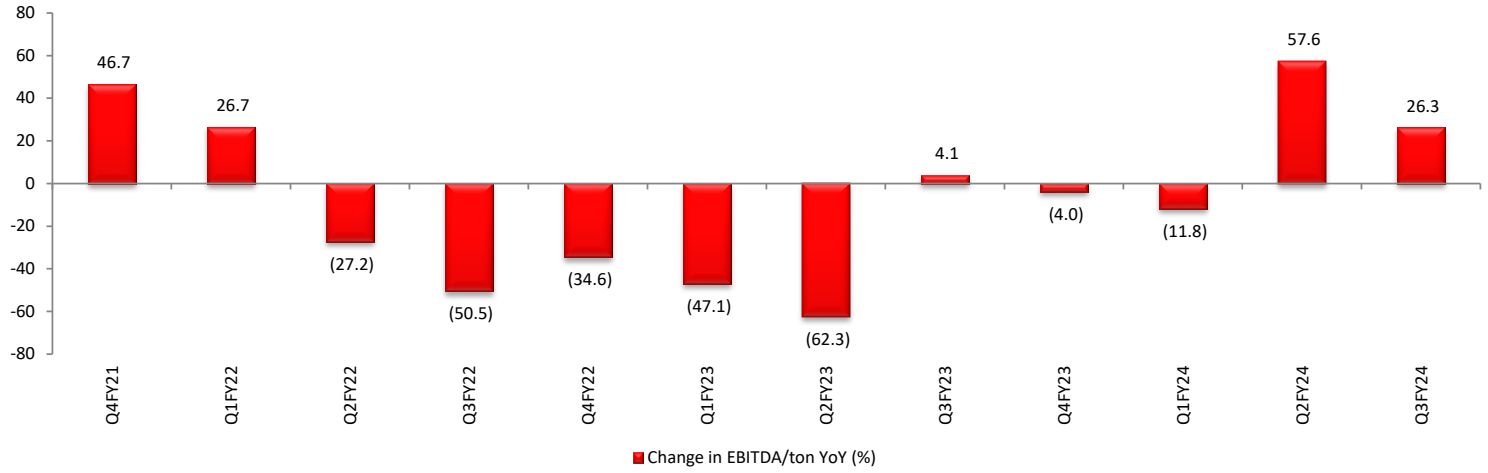
Source: Company, Systematix Institutional Research

Exhibit 5: Change in NSR YoY and QoQ



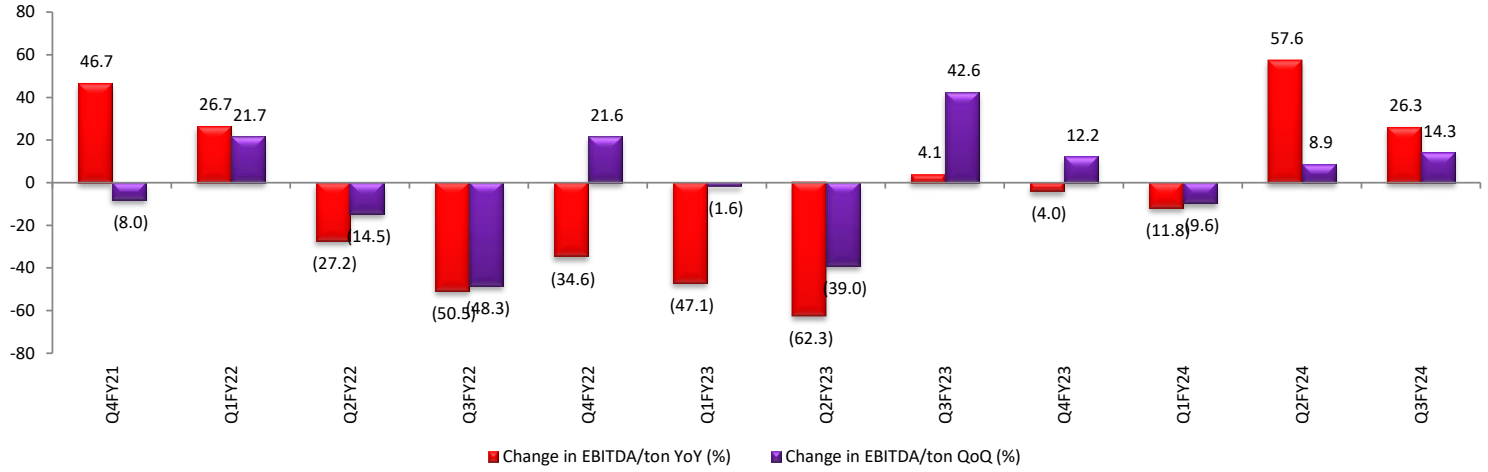
Source: Company, Systematix Institutional Research

Exhibit 6: Blended EBITDA/tn



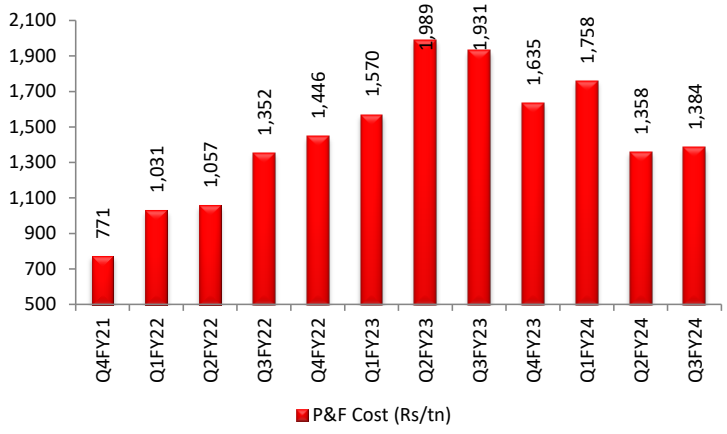
Source: Company, Systematix Institutional Research

Exhibit 7: Blended EBITDA/tn rose by 26.3% YoY and 14.3% QoQ



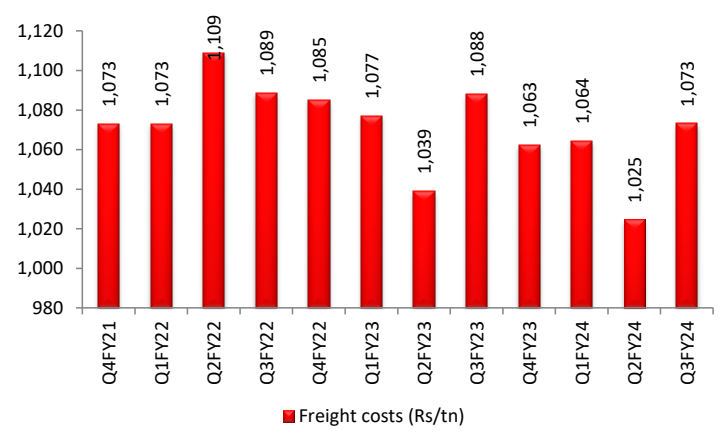
Source: Company, Systematix Institutional Research

Exhibit 8: P&F cost/tn down 28.3% YoY but down 1.9% QoQ



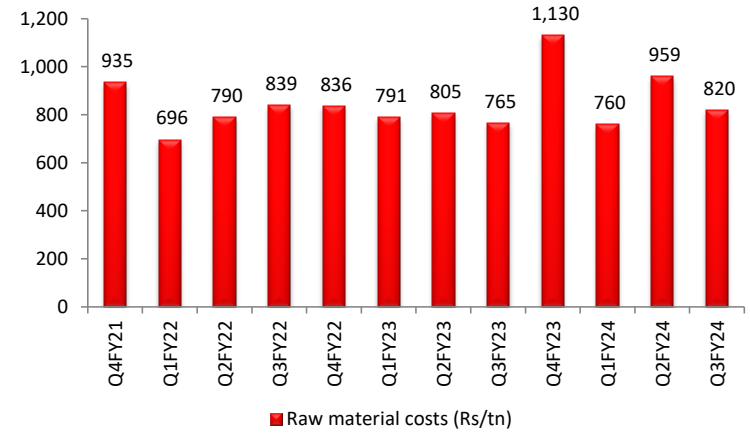
Source: Company, Systematix Institutional Research

Exhibit 9: Freight Cost/tn down by 1.4% YoY but up 4.7% QoQ



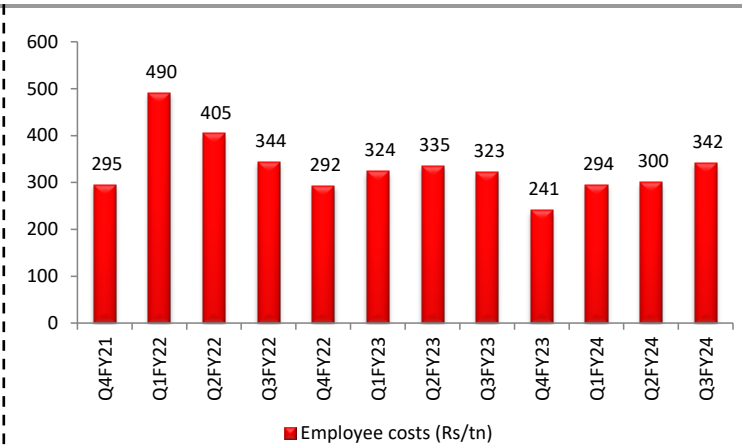
Source: Company, Systematix Institutional Research

Exhibit 10: RM Cost/tn up by 7.2% YoY and down 14.5% QoQ



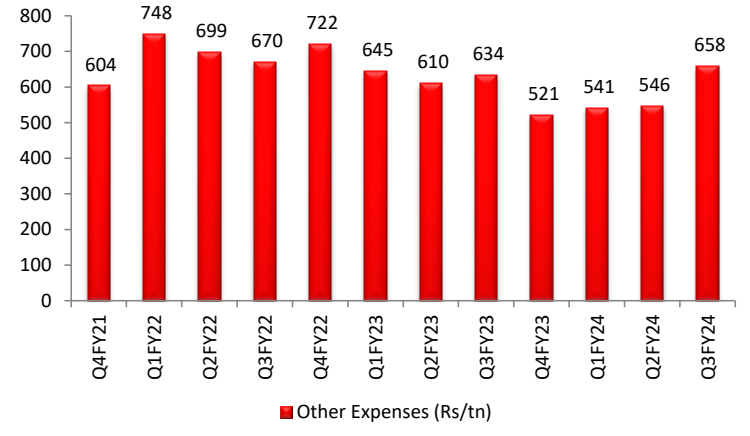
Source: Company, Systematix Institutional Research

Exhibit 11: Employee Cost/tn rose 5.9% YoY and 13.8% QoQ



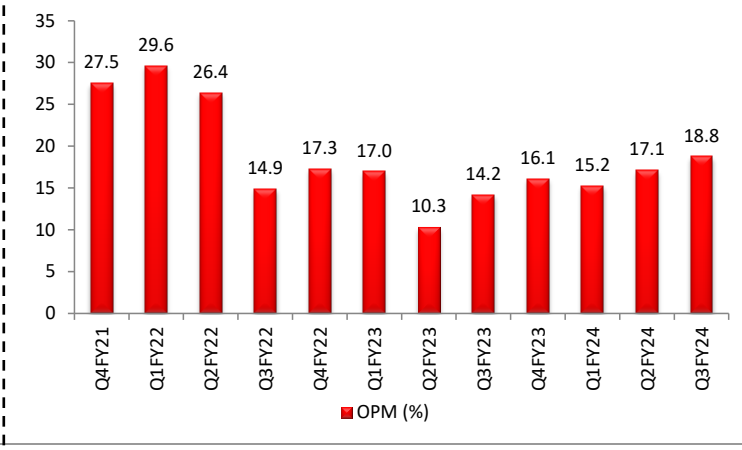
Source: Company, Systematix Institutional Research

Exhibit 12: Other Expenses/tn up 3.7% YoY & 20% QoQ



Source: Company, Systematix Institutional Research

Exhibit 13: Margin stood at 18.8% in 3QFY24 vs. 14.2% in 3QFY23



Source: Company, Systematix Institutional Research

Exhibit 14: TRCL valued on EV/EBITDA method (FY26E)

FY26E	EBITDA (Rs bn)	Multiple (x)	Enterprise Value (Rs bn)
EBITDA	22	15	326
Less: net debt / (cash)			55
Equity value			271
Target price per share			**1,146**

Source: Company, Systematix Institutional Research

Exhibit 15: Key assumptions

Particulars	FY21	FY22	FY23	FY24E	FY25E	FY26E
Cement Sales Volume (mt)	10.0	11.0	14.8	17.1	19.0	20.9
Blended Realization (Rs/ton)	5,281	5,412	5,489	5,215	5,277	5,330
EBITDA (incl. other income) (Rs/ton)	1,481	1,107	752	888	989	1,022
Per ton costs (Rs)						
Raw material	858	794	896	847	888	924
Employee cost	403	375	310	313	329	362
Power & Fuel	797	1,257	1,796	1,450	1,400	1,350
Freight	1,028	1,099	1,082	1,055	1,044	1,014
Other expense	643	725	608	620	626	658
Total Cost	**3,729**	**4,251**	**4,692**	**4,286**	**4,288**	**4,308**

Source: Company, Systematix Institutional Research

FINANCIALS (STANDALONE)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**59,796**	**81,353**	**89,169**	**1,00,165**	**1,11,284**
Growth (%)	13.5	36.0	9.6	12.3	11.1
EBITDA	**12,835**	**11,820**	**15,882**	**18,772**	**21,338**
Growth (%)	(17.1)	(7.9)	34.4	18.2	13.7
EBITDA margin (%)	**21.5**	**14.5**	**17.8**	**18.7**	**19.2**
Depreciation	4,008	5,044	6,396	7,064	7,450
EBIT	**8,826**	**6,775**	**9,486**	**11,708**	**13,889**
Other Income	306	367	374	382	389
Interest expenses	1,124	2,405	4,130	4,488	4,597
PBT	**8,009**	**4,737**	**5,730**	**7,601**	**9,682**
Tax	**-915**	**1,302**	**1,444**	**1,916**	**2,440**
Effective tax rate (%)	-11.4	27.5	25.2	25.2	25.2
Adjusted PAT	**8,923**	**3,435**	**4,286**	**5,686**	**7,242**
Growth (%)	17.2	(61.5)	24.8	32.7	27.4
Net Margin (%)	**14.9**	**4.2**	**4.8**	**5.7**	**6.5**
Reported PAT	**8,923**	**3,435**	**4,286**	**5,686**	**7,242**
Growth (%)	17.2	(61.5)	24.8	32.7	27.4

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	236	236	236	236	236
Reserves & surplus	65,012	67,699	70,709	75,119	81,085
Net worth	**65,248**	**67,935**	**70,945**	**75,355**	**81,321**
Loan Funds	**39,300**	**44,874**	**51,750**	**55,129**	**56,510**
Net Deferred Taxes	8240.4	9285.1	9285.1	9285.1	9285.1
Total Liabilities	**1,12,788**	**1,22,095**	**1,31,981**	**1,39,769**	**1,47,116**
Net block	**77,516**	**1,01,826**	**1,32,304**	**1,42,239**	**1,49,790**
Capital WIP	30,340	19,873	3,000	3,000	3,000
Investment	**2,013**	**4,382**	**4,382**	**4,382**	**4,382**
Current Assets	**20,687**	**19,087**	**20,170**	**21,099**	**24,510**
Inventories	8,333	8,823	9,585	10,642	11,885
Sundry Debtors	3,498	4,650	5,617	6,237	6,965
Cash and Bank	1,760	1,686	938	123	1,486
Current Liab & Prov	**17,767**	**23,074**	**27,875**	**30,951**	**34,566**
Net current assets	**2,920**	**-3,987**	**-7,705**	**-9,852**	**-10,056**
Total Assets	**1,12,789**	**1,22,095**	**1,31,981**	**1,39,769**	**1,47,116**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT (Ex-Other income)	**8,012**	**4,737**	**5,356**	**7,219**	**9,292**
Depreciation	4,008	5,044	6,396	7,064	7,450
Interest Provided	1,124	2,405	4,130	4,488	4,597
Other Non-Cash items					
Chg in working cap	(171)	2,471	2,970	1,333	1,566
Tax paid	(1,575)	(316)	(1,444)	(1,916)	(2,440)
Operating Cashflow	**11,291**	**14,050**	**17,408**	**18,189**	**20,465**
Capital expenditure	(18,155)	(17,651)	(20,000)	(17,000)	(15,000)
Free Cash Flow	**(6,865)**	**(3,601)**	**(2,592)**	**1,189**	**5,465**
Other income	57	787	374	382	389
Investments	(4)	(5)	-	-	-
Investing Cashflow	**(18,103)**	**(16,869)**	**(19,626)**	**(16,618)**	**(14,611)**
Equity Capital Raised	23	-	-	-	-
Loans Taken / (Repaid)	8,256	5,788	6,876	3,379	1,381
Interest Paid	(1,125)	(2,334)	(4,130)	(4,488)	(4,597)
Dividend paid (incl tax)	-	(710)	(1,276)	(1,276)	(1,276)
Income from investments	-	-	-	-	-
Others	-	-	-	-	-
Financing Cashflow	**7,154**	**2,745**	**1,470**	**(2,385)**	**(4,492)**
Net chg in cash	**342**	**(75)**	**(748)**	**(814)**	**1,363**
Opening cash position	1,419	1,760	1,686	938	123
Closing cash position	**1,760**	**1,686**	**938**	**123**	**1,486**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
Profitability (%)					
EBITDA Margin	21.5	14.5	17.8	18.7	19.2
Net Margin	14.9	4.2	4.8	5.7	6.5
ROCE	8.7	6.1	7.8	8.9	10.0
ROE	14.7	5.2	6.2	7.8	9.2
RoIC	11.8	7.8	8.6	9.1	10.3
Per Share Data (Rs)					
EPS	37.8	14.5	18.1	24.1	30.6
CEPS	54.8	35.9	45.2	54.0	62.2
BVPS	276.6	287.5	300.2	318.9	344.1
DPS	3.5	4.0	4.5	4.5	4.5
Valuations (x)					
PER	23.8	62.0	49.7	37.4	29.4
P/CEPS	16.4	25.1	19.9	16.7	14.5
P/BV	3.3	3.1	3.0	2.8	2.6
EV / Sales	4.2	3.1	3.0	2.7	2.4
EV / EBITDA	19.5	21.7	16.6	14.3	12.6
Dividend Yield (%)	0.4	0.4	0.5	0.5	0.5
Gearing Ratio (x)					
Net Debt/ Equity	0.6	0.6	0.7	0.7	0.7
Net Debt/EBIDTA	2.9	3.7	3.2	2.9	2.6
Working Cap Cycle (days)	(38.5)	(49.7)	(54.3)	(54.3)	(54.3)

Source: Company, Systematix Institutional Research

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