

The Ramco Cements Ltd (TRCL)

NEUTRAL

Choice

Sharp increase in fuel prices and weak cement prices lead to depressed EBITDA margins

TRCL's Q2FY23 standalone volumes stood at 3.31mnt (up 22% YoY, but flat QoQ) resulting in ~66% capacity utilization. Blended realization/t for Q2FY23 came in at INR 5,296(down by 1% YoY and flat QoQ), mainly due to sharp rise in Power & Fuel prices and weak cement prices. Hence, net revenue for the quarter stood at Rs. 1,784 cr (up by 20% YoY and up by 1% QoQ). Company continues its focus on premium products and hence the share of premium products increased by 4% and stood at 24% for H1FY23. The company continues its focus on its strategy of providing the "right products for right applications" and making its brands stronger.

- **Cost curve remains elevated, impacting EBITDA margins:** Cement Cost/t for Q2FY23 came in at Rs. 4,834 (up by 19% YoY and up by 9% QoQ) on account of high Power & Fuel costs, which came in at Rs. 2,013 (up 90% YoY and up 27% QoQ) largely due to global geopolitical uncertainty raising costs. Blended fuel consumption per ton in current quarter was equivalent to \$199 as against \$97 a year ago. Raw material cost/t came in at Rs. 846 (up by 12% YoY though down by 2% QoQ) and Freight charges/t came in at Rs. 1,051 (down 5% YoY and down 3% QoQ). As a result of these factors, EBITDA/t fell to Rs. 555 from Rs. 908 in Q1FY23 and Rs. 1,454 in Q2FY22 (down 62% YoY and down 39% QoQ) which was one of the lowest the company has earned in the last 8 years.
- **Capacity Expansion:** During the current quarter, company incurred Rs. 504cr towards capex. The company's cement capacity has gone up to 21mntpa with clinker capacity of 14mntpa and installed grinding unit of 7mntpa. The greenfield plant in Kurnool district with a capacity of 1.5mntpa of cement grinding commenced commercial production in Sep 22. The modernization of RR nagar plant will be commissioned before Mar 23. The management has guided, with regards to expansion of dry mortar capacities, that two units of Tamil Nadu are ready for commissioning and market trials of products are in progress. Remaining two units in AP and Odisha will be commissioned during FY23-24. The company is proposing to increase the grinding capacity of Haridaspur plant in Odisha by 0.9mntpa at a cost of Rs 130cr thereby doubling its capacity to 1.8mntpa. Additionally, 6 MW of WHRS in Kolimigundla will be commissioned in Nov-22 and balance 6 MW will be commissioned in Mar-23. Thermal Power of 18 MW and railway siding will be commissioned in FY23-24
- **Net Debt increased:** The company's net debt as on 30 Sept 2022 is Rs.4700 cr, of which Rs. 724 cr is short term. The average cost of borrowings for this quarter increased to 6.42% from 5.47% YoY. Interest cost for the quarter is Rs.55 crores as against Rs.29 crores during Q2FY22, and company attributes the increase in debt to investments made for commissioning of clinkering unit in Jayanthipuram Line III and Kolimigundla.
- **View & Valuation:** We are not overly optimistic about the earnings growth prospects of the firm as it faces competitive (due to massive capacity expansion of large national players) as well as cost pressures (which are not expected to ease anytime soon). TRCL is available at 14.8x of our FY25E EBITDA estimates, which is at a premium of 14% from our target EV EBITDA multiple of 13x (derived assuming that ~30-40% debt will be repaid). We hence ascribe a target price of INR 617 and assign a NEUTRAL rating to the stock.

Financial Snapshot

Quarter end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue (INR Mn.)	53,684	52,684	59,820	71,327	80,364	88,849
EBITDA (INR Mn.)	11,366	15,479	12,859	9,818	11,030	12,819
EBITDA Margins (%)	21.2	29.4	21.5	13.8	13.7	14.4
Adj. PAT	6,011	7,610	8,960	3,310	4,081	5,520
PAT Margins (%)	11.2	14.4	15.0	4.6	5.1	6.2
EPS	25.5	32.3	38.0	14.0	17.3	23.4
EV/EBITDA	12.8	16.3	16.7	18.3	15.8	13.0
EV/Tonne (\$)	106	173	147	113	109	105
ROIC (%)	14.1	20.2	12.9	7.2	8.8	11.2
EV/IC	2.51	4.27	3.14	2.35	2.32	2.28

Source: Company, CEBPL

Nov 11, 2022

CMP (Rs)	645
Target Price (Rs)	617
Potential Downside (%)	(4.4)

Company Info

BB Code	TRCL IN EQUITY
ISIN	INE331A01037
Face Value (Rs.)	10
52 Week High (Rs.)	1106.6
52 Week Low (Rs.)	575.05
Mkt Cap (Rs bn.)	174.005
Mkt Cap (\$ bn.)	2.14
Shares o/s (Mn.)/F.Float	236.3/108.2
TTM EPS (Rs)	14.0
EPS FY24E (Rs)	17.3

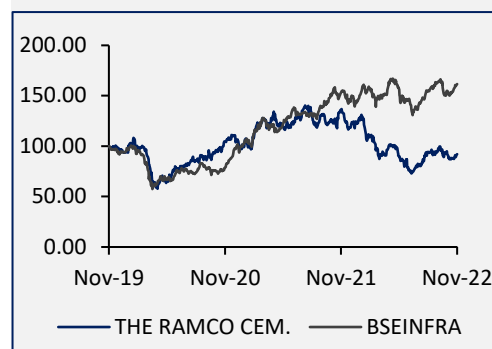
Shareholding Pattern (%)

	Sep-22	Jun-22	Mar-22
Promoters	42.29	42.33	42.33
FII's	6.63	6.86	7.63
DII's	33.75	33.40	32.63
Public	17.35	14.03	14.03

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE INFRA	61.4	106.2	4.8
RAMCO CEMENTS	(7.9)	(11.7)	(32.6)

Rebased Price Performance



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Concall Highlights

- According to management, current cement demand is good in the individual house builder markets as well as infrastructure segment. There has been improvement in economic activities post pandemic, along with easing of supply chain bottlenecks. The resilience of cement demand in medium term is also encouraging in view of promising factors like good monsoon, focus on infra spend by the Government & upcoming elections.
- The company planning to do capex of INR ~1700 cr in FY23 of which INR 986 cr capex is spent in H1FY23. In the incremental capex, minimum expected ROC is 15-16%.
- Trade mix this quarter was 69:31 for Trade: Non trade. Average lead distance during the quarter stood 297km (down by 8% YoY). During Q2FY23, TRCL operated at 66% utilization. Operating ratio for this quarter is 11% as against 27% in Q2 of PY.
- Demand from Individual housing and Infra increased in South region and remained flat in East.
- During Q2FY23, the windfarms have generated 6.29 crore units, a decrease of 13% YoY. Power and fuel cost may increase next quarter by 5%-6% but is expected to fall from then onwards.
- EBIDTA for the quarter came to Rs.183 crores as against Rs.393 crores in Q2FY22, a de-growth of 53%, mainly due to sharp increase in fuel price and weak cement prices. As the company's capacities are concentrated in South, it is not entitled to tax incentives from any of the state governments unlike peers, who enjoy privileges in other regions.
- Tax expenses during Q2FY23 stood at Rs. 5 cr as against reversal of tax expenses of Rs. 243 cr during Q2FY22 wherein the company had opted for shifting to lower tax rate from FY 2021-22 onwards.

Sequential Operating Performance

Operating Metrics INR/t	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23
Blended Realisation	5,629	5,366	5,126	5,305	5,285	5,296
Raw Material Cost	828	754	818	842	865	846
Employee Cost	490	405	351	295	327	339
Power & Fuel Cost	1,031	1,057	1,380	1,459	1,584	2,013
Freight & Handling Expense	1,073	1,109	1,111	1,094	1,087	1,051
Other Expenses	748	699	684	728	650	617
Total Costs	4,039	4,059	4,383.8	4,418.7	4,447	4,834
EBITDA	1,700	1,454	768	922	908	555

Source: Company, CEBPL

CEBPL Estimates vs Actual for Q2 FY23

PARTICULARS	Q2FY23	CEBPL Est.	Dev. (%)	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)
Volumes	3.31	2.9	13.7	2.71	22.3	3.31	0.0
Revenues (INR mn.)	17,844	16,252	9.8	14,931	19.5	17,725	0.7
Gross Profit (INR mn.)	15,146	13,627	11.1	12,792	18.4	15,083	0.4
Gross Margin (%)	84.9	83.9	103bps	85.7	(79)bps	85.1	(21)bps
EBITDA (INR mn.)	1,838	4,003	(54.1)	3,938	(53.3)	3,007	(38.9)
EBITDA Margin (%)	10.3	24.6	(1433)bps	26.4	(1608)bps	17.0	(666)bps
EBIT (INR mn.)	711	2,999	(76.3)	3,032	(76.6)	2,012	(64.7)
EBIT Margin (%)	4.0	18.5	(1447)bps	20.3	(1633)bps	11.4	(737)bps
PAT (INR mn.)	115	2,030	(94.4)	5,171	(97.8)	1,123	(89.8)
Basic EPS (INR)	0.5	8.6	(94.4)	21.9	(97.8)	4.8	(89.8)

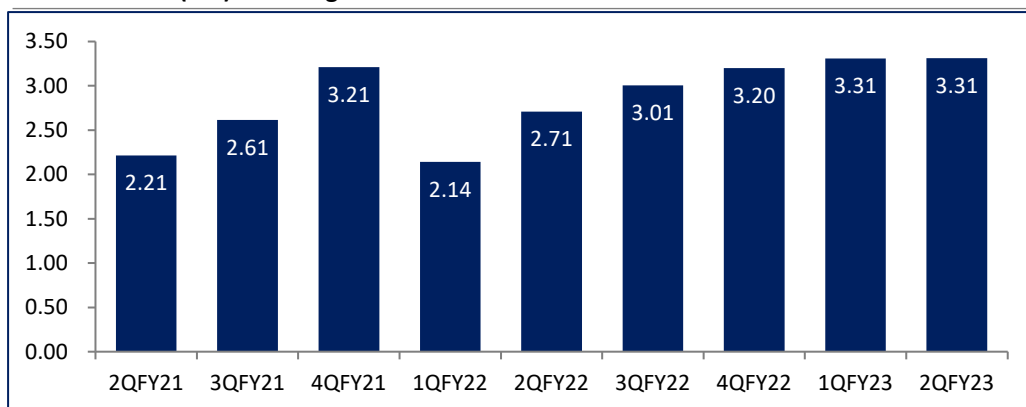
Source: Company, CEBPL

Change in estimates for FY23E & FY24E

Income Statement (INR Mn.)	FY23E			FY24E		
	Old	New	Dev. (%)	Old	New	Dev. (%)
Revenues	65,965	71,327	8.1	71,582	80,364	12.3
Gross Margin (%)	84.8	85.1	27.7bps	84.7	84.5	(12.5)bps
EBITDA	14,217	9,818	(30.9)	15,356	11,030	(28.2)
EBITDA Margin (%)	21.6	13.8	(778.7)bps	21.5	13.7	(772.7)bps
EPS (Rs)	28.0	14.0	(50.0)	31.5	17.3	(45.0)

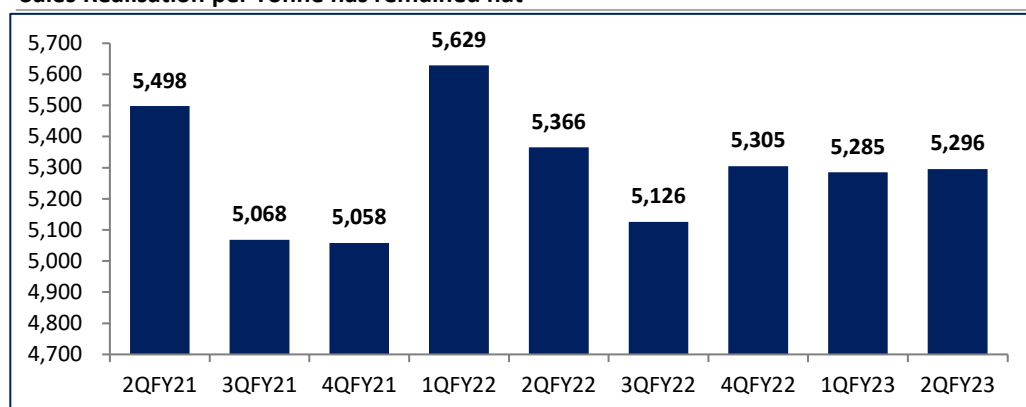
Source: Company, CEBPL

Sales Volume (MT) trending flat



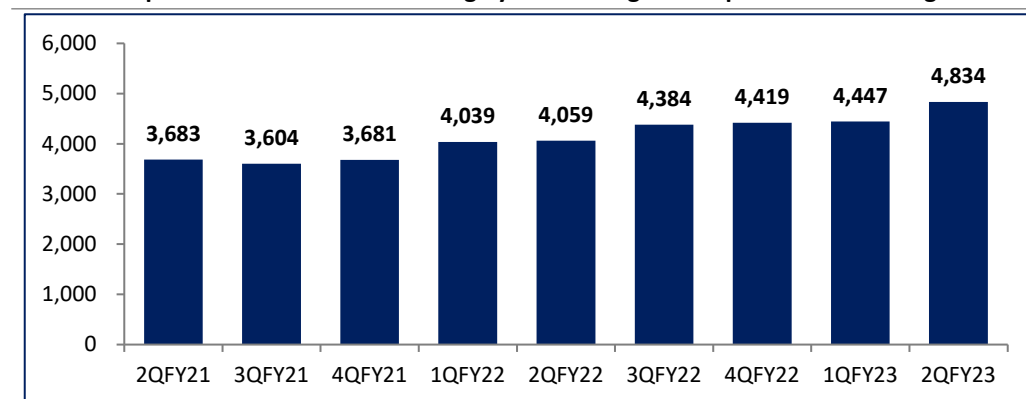
Source: Company, CEBPL

Sales Realisation per Tonne has remained flat



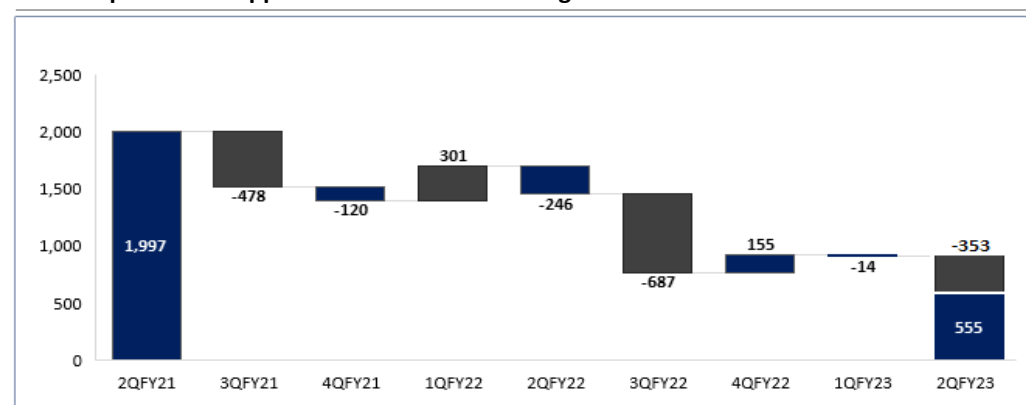
Source: Company, CEBPL

Total Costs per Tonne have increased largely due to heightened power & fuel charges



Source: Company, CEBPL

EBITDA per Tonne dipped to INR 555 due to rising costs



Source: Company, CEBPL

Financial Summary (Consolidated in INR Mn.)

Income Statement (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	52,684	59,820	71,327	80,364	88,849
Gross profit	44,031	50,917	60,716	67,929	75,406
EBITDA	15,479	12,859	9,818	11,030	12,819
Depreciation	3,553	4,008	4,327	4,475	4,623
EBIT	11,926	8,851	5,491	6,555	8,196
Other income	346	319	322	326	329
Interest expense	876	1,124	1,352	1,440	1,165
PAT	7,610	8,960	3,310	4,081	5,520
EPS (INR)	32.3	38.0	14.0	17.3	23.4

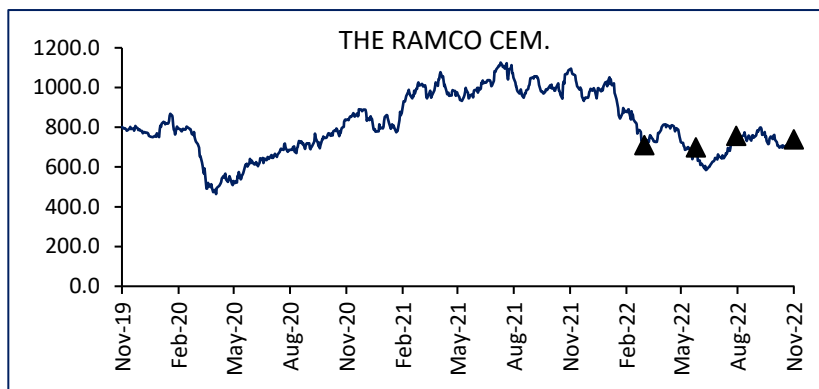
Balance Sheet (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Tangible fixed assets	67,206	75,309	83,848	83,873	83,750
Capital Work in Progress	23,255	29,922	23,255	23,255	23,255
Investments	4,369	4,220	5,032	5,669	6,268
Cash & Cash equivalents	1,419	1,760	1,047	1,242	2,087
Loans & Advances and Other Assets	7,479	7,514	8,935	10,013	11,026
Net Working Capital	6,097	6,939	8,142	8,617	9,615
Total assets	1,09,824	1,25,663	130,258	132,669	136,001
Shareholder's funds	56,268	65,249	68,559	72,639	78,159
Borrowings	31,017	39,300	33,800	28,800	23,300
Deffered Tax	10,877	8,240	10,922	12,324	13,639
Other Liabilities & Provisions	11,662	12,874	16,977	18,907	20,903
Total equity & liabilities	1,09,824	1,25,663	130,258	132,669	136,001
Capital Employed	83,744	1,00,058	100,703	99,399	98,699
Invested Capital	59,070	68,376	76,401	74,902	73,357

Cash Flows (INR Mn.)	FY21	FY22	FY23E	FY24E	FY25E
Cash flows from Operations	18,929	11,291	7,120	9,695	10,845
Cash flows from Investing	(17,790)	(18,103)	(2,334)	(4,500)	(4,500)
Cash flows from financing	(634)	7,154	(5,500)	(5,000)	(5,500)

Ratio Analysis 8	FY21	FY22	FY23E	FY24E	FY25E
Growth Ratios (%)					
Revenues	(1.9)	13.5	19.2	12.7	10.6
Gross Profit	(2.0)	15.6	19.2	11.9	11.0
EBITDA	36.2	(16.9)	(23.6)	12.3	16.2
EBIT	45.2	(25.8)	(38.0)	19.4	25.0
Margin Ratios (%)					
Gross Profit Margin	83.6	85.1	85.1	84.5	84.9
EBITDA Margin	29.4	21.5	13.8	13.7	14.4
EBIT Margin	22.6	14.8	7.7	8.2	9.2
Profitability (%)					
Return on equity	13.5	13.7	4.8	5.6	7.1
Return on invested capital	20.2	12.9	7.2	8.8	11.2
Return on capital employed	14.2	8.8	5.5	6.6	8.3
Valuation					
OCF / IC (%)	32.0	16.5	9.3	12.9	14.8
EV / EBITDA (x)	16.3	16.7	18.3	15.8	13.0
EV/IC (x)	4.27	3.14	2.35	2.32	2.28

Source: Company, CEBPL

Historical recommendations and target price: TRCL



The Ramco Cements Ltd.

1. 08-03-2022 REDUCE, Target Price, 771
2. 24-05-2022 NEUTRAL, Target Price, 676
3. 02-08-2022 ADD, Target Price 828
4. 11-11-2022 NEUTRAL, Target Price 671

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OUTPERFORM	The security is expected to generate more than 15% returns over the next 12 months
ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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