

Retail Equity Research

The Ramco Cements Limited

Cement

BSE CODE: 500260

NSE CODE: RAMCOCEM

Bloomberg CODE: TRCL:IN

SENSEX: 66,009

BUY

12 Months Investment Period

Rating as per Mid Cap

CMP Rs. 859

TARGET Rs. 1,034

RETURN 20% ↑

(Closing: 22-09-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Strong volumes on capacity additions, margins to improve

The Ramco Cements Ltd. (TRCL), the Ramco Group's flagship company, is the 5th largest cement company in India with a total production capacity of ~22MT (South-19MT & East-3MT). TRCL has a captive thermal power capacity of 175MW and a windmill capacity of 126MW.

- We maintain our BUY rating with a target price of Rs. 1,034, considering strong volumes and the expected improvement in margins.
- Revenue growth was strong at 26%YoY for Q1FY24, mainly aided by strong volumes (+28% YoY).
- However, operating profit grew by only 14%YoY as EBITDA margin declined by 170bps YoY to 15.2% due to elevated fuel prices. Recent decline in fuel prices will reflect in margins in the coming quarters.
- High capex during FY19-FY23 resulted in a high debt level (Rs. 44bn vs. Rs. 10.3bn in FY19). However, Net debt-to-EBITDA is at 3.7x vs. 4.5x during the last capex cycle. Deleveraging has already started (net debt was Rs. 47.4bn in Q2FY23) and expect more reduction post FY24.
- Cost reduction measures like Waste Heat recovery and converting of windmill power to captive, will save cost of ~Rs. 130-180 per ton.
- TRCL trades at 13x 1Yr Fwd EV/EBITDA. We value TRCL at ~14x (5Yr avg=14) FY25E EBITDA, considering the strong demand outlook.

Strong volumes aided by capacity additions

TRCL reported strong revenue growth of 26%YoY, mainly aided by strong volumes (+28%YoY) despite supply disruptions for 20 days due to rail accidents and weak prices in East. Ramp up in new units supported volumes. TRCL has recently commissioned 1MT of grinding capacity at R.R. Nagar (TN), and is adding 0.9MT in Odisha by the end of FY24. Increased capacity would support future volumes, while increasing premium mix (targets of 30-35% in the next 2-3 years from the current 27%) would support realization. TRCL expands the capacity of dry mix products with two plants commissioned in FY23 and another two (in AP & Odisha) by FY24. This product has ~25-30% margin and will contribute ~Rs. 80cr revenue per plant. The company has guided for strong volume growth of ~20% in FY24. We expect revenue to grow at a 12% CAGR over FY23-25E.

Strong volumes & declining costs will aid margin improvement.

EBITDA margin contracted by 170bps YoY to 15% YoY due to elevated input costs. However, operating profit improved by 14%YoY, aided by strong volumes. EBITDA/ton declined to Rs. 807 vs. Rs.907 YoY (Rs. 878 QoQ). The recent decline in fuel prices is expected to reflect in margins in the coming quarters. This, along with TRCL's cost efficiency measures like WHRS (Waste Heat Recovery Systems-12MW in south), an improvement in the premium mix and capacity increase in value added products, will support margins in future. Currently, the green power mix is at 29% Vs 19% YoY, 23% QoQ). Windmill capacity of 133MW is shifting to captive use in phased manner and ~Rs.80/ton cost savings are expected. Higher finance & depreciation is on account of commissioning of new capacities. We expect EBITDA/Ton to improve in FY24 to Rs.1,042 (vs. Rs.787 in FY23/ Rs. 1,162 in FY22).

Valuation & Outlook: Focus is shifting to deleveraging post major capex.

TRCL's capacity expansions, coupled with GoI's strong focus on Infra & Housing, will aid future volumes. Now, declining input costs coupled with a shifting focus to deleveraging post FY24 will support valuation. The stock currently trades at ~14x 1Yr Fwd EV/EBITDA. We value TRCL at ~14x FY25E EV/EBITDA (5Yr avg=14) and arrived at a target price of Rs. 1,034, maintain BUY rating considering strong volumes and deleveraging.

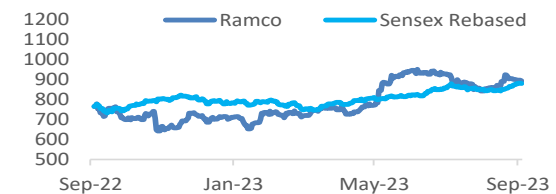
Company Data

Market Cap (Rs.cr)	20,236
Enterprise Value (Rs.cr)	24,553
Outstanding Shares (cr)	23.6
Free Float	54%
Dividend Yield	0.2%
52 week high (Rs.)	953
52 week low (Rs.)	635
6m average volume (cr)	0.05
Beta	0.96
Face value (Rs.)	1

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	42.3	42.3	42.1
FII's	7.1	7.6	8.0
MFs/Insti	32.3	32.5	32.4
Public	11.4	11.2	10.7
Others	7.0	6.5	6.8
Total	100.0	100.0	100.0
Promotor pledge (%)	20.6	21.9	22.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-4.0%	21.6%	16.7%
Absolute Sensex	7.0%	16.4%	15.1%
Relative Return*	-10.9%	5.2%	1.6%

*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	8,135	9,322	10,161
Growth (%)	36.0	14.6	9.0
EBITDA	1,182	1,784	1,992
EBITDA Margin (%)	14.5	19.1	19.6
Adj. PAT	344	636	790
Growth (%)	-61.2	85.2	24.2
Adj. EPS	14.5	26.9	33.4
Growth (%)	-61.2	85.2	24.2
P/E	59.5	32.1	25.9
P/B	3.0	2.8	2.5
EV/EBITDA	20.8	13.7	11.8
ROE (%)	5.2	9.0	10.3
D/E	0.7	0.6	0.4

Vincent Andrews
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

(Rs cr)	Q1FY24	Q1FY23	YoY Growth	Q4FY23	QoQ Growth
Sales	2,241	1,772	26.4%	2,570	-12.8%
EBITDA	341	301	13.6%	413	-17.3%
EBITDA margins	15.2%	17.0%	(170bps)	16.1%	(80bps)
Depreciation	148	106	39.0%	141	5.2%
EBIT	194	194	-0.4%	272	-28.9%
Interest	93	47	96.7%	77	21.0%
Other Income	8	7	14.3%	12	-32.2%
Exceptional Items	0	0	0.0%	0	0.0%
PBT	108	154	-29.7%	207	-47.7%
Tax	29	41	-29.6%	54	-46.3%
Share of profit from associates	0	0	NA	0	NA
Minority interest	0	0	NA	0	NA
Reported PAT	79	112	-29.7%	152	-48.2%
Adjustments	0	0	0.0%	0	0.0%
Adj PAT	79	112	-29.7%	152	-48.2%
No. of Shares	24	24	0.0%	24	0.0%
Adj EPS (Rs)	3.3	4.8	-29.7%	6.5	-48.2%

Per Tonne Analysis

	Q1FY24	Q1FY23	YoY Growth	Q4FY23	QoQ Growth
Cement Volume (MT)	4.2	3.3	27.9%	4.7	-9.9%
Cost of materials consumed	772	798	-3.3%	1,130	-31.7%
Employee Expenses	299	327	-8.6%	241	24.3%
Power & Fuel	1,786	1,584	12.7%	1,635	9.2%
Freight & forwarding	1,081	1,087	-0.5%	1,063	1.8%
Other expenses	550	650	-15.5%	521	5.5%
Total expenses	4,488	4,447	0.9%	4,589	-2.2%
Realisation (inc. RMC)	5,294	5,355	-1.1%	5,467	-3.2%
EBITDA	807	908	-11.2%	878	-8.2%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change	
	FY24E	FY25E	FY23E	FY24E	FY23E	FY24E
Revenue	9,063	9,781	9,322	10,161	2.9%	3.9%
EBITDA	1,695	2,025	1,784	1,992	5.2%	-1.6%
Margins (%)	18.7	20.7	19.1	19.6	410bps	(110bps)
Adj. PAT *	661	913	636	790	-3.7%	-13.4%
EPS	28.0	38.6	26.9	33.4	-3.8%	-13.4%

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	5,368	5,268	5,980	8,135	9,322	10,161
% change	4.3	-1.9	13.5	36.0	14.6	9.0
EBITDA	1,137	1,548	1,284	1,182	1,784	1,992
% change	9.6	36.2	-17.1	-7.9	50.9	11.6
Depreciation	315	355	401	504	602	639
EBIT	821	1,193	883	678	1,181	1,353
Interest	71	88	112	241	371	307
Other Income	37	35	31	37	37	36
PBT	787	1,140	801	474	848	1,083
% change	10.0	44.8	-29.7	-40.9	79.0	27.7
Tax	186	379	-83	130	212	292
Tax Rate	23.6%	33.2%	-10.4%	27.5%	25.0%	27.0%
Reported PAT	601	761	1,198	344	636	790
Adj*	0	-19	314	0	0	0
Adj PAT	601	780	885	344	636	790
% change	18.8	29.8	13.4	-61.2	85.2	24.2
No. of shares (cr)	23.6	23.6	23.6	23.6	23.6	23.6
Adj EPS (Rs.)	25	32	51	15	27	33
% change	18.8	29.8	13.4	-61.2	85.2	24.2
DPS (Rs.)	4	4	4	4	4	4
CEPS (Rs.)	38.9	48.1	54.4	35.9	52.4	60.5

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	916	1,116	1,285	848	1,239	1,429
Non-cash adj.	199	394	-72	147	212	292
Other adjustments	-13	-133	-68	164	159	14
Changes in W.C	-292	508	-17	247	-105	-5
C.F. Operation	757	1,868	1,129	1,405	1,505	1,731
Capital exp.	-1919	-1765	-1810	-1763	-900	-300
Change in inv.	-15	-10	0	-1	-82	-84
Other invest.CF	15	11	10	10	0	0
C.F - Investment	-1,932	-1,771	-1,810	-1,687	-982	-384
Issue of equity	0	2	2	0	0	0
Issue/repay debt	1,427	75	826	579	-88	-996
Dividends paid	-156	-71	0	-71	-85	-85
Other finance.CF	-58	-70	-112	-233	-371	-307
C.F - Finance	1,213	-64	715	274	-544	-1,388
Chg. in cash	37	34	34	-7	-22	-41
Closing cash	91	142	176	169	147	106

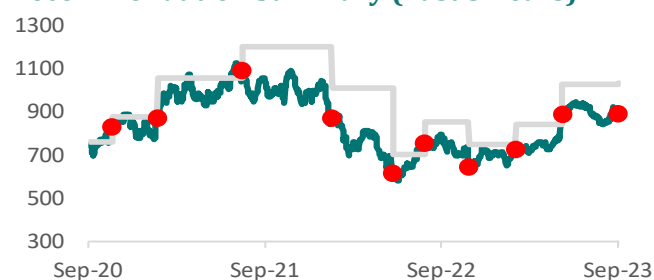
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	61	142	176	169	147	106
Accounts Receivable	527	375	350	465	536	585
Inventories	645	598	833	882	954	1,069
Other Cur. Assets	335	336	345	372	388	423
Investments	189	201	201	202	202	202
Gross Fixed Assets	9,517	10,801	11,987	14,892	16,819	17,719
Net Fixed Assets	5,970	6,899	7,684	10,084	11,409	11,670
CWIP	1,814	2,325	2,992	1,927	900	300
Intangible Assets	83	87	109	150	150	150
Def. Tax (Net)	0	0	0	0	0	0
Other Assets	423	382	364	266	347	432
Total Assets	10,047	11,346	13,056	14,517	15,034	14,937
Current Liabilities	1,503	1,445	1,667	2,176	2,227	2,416
Provisions	54	65	80	96	107	114
Debt Funds	2,632	3,102	3,930	4,487	4,387	3,387
Other Liabilities	938	1,107	854	964	968	970
Equity Capital	24	24	24	24	24	24
Reserves & Surplus	4,895	5,603	6,501	6,770	7,321	8,026
Shareholder's Fund	4,919	5,627	6,525	6,794	7,344	8,049
Total Liabilities	10,047	11,346	13,056	14,517	15,034	14,937
BVPS (Rs.)	205	235	272	281	304	334

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return						
EBITDA margin (%)	21.2	29.4	21.5	14.5	19.1	19.6
EBIT margin (%)	15.3	22.6	14.8	8.3	12.7	13.3
Net profit mgn.(%)	11.2	14.8	14.8	4.2	6.8	7.8
ROE (%)	12.8	14.8	14.6	5.2	9.0	10.3
ROCE (%)	7.4	6.9	11.2	3.8	6.5	6.8
W.C & Liquidity						
Receivables (days)	34.6	31.2	22.1	18.3	19.6	20.1
Inventory (days)	41.0	43.1	43.7	38.5	36.0	36.3
Payables (days)	125.0	148.7	174.8	153.1	158.8	141.6
Current ratio (x)	0.7	0.6	0.6	0.6	0.7	0.8
Quick ratio (x)	0.3	0.2	0.2	0.2	0.2	0.3
Turnover & Leverage						
Gross asset T.O (x)	0.6	0.5	0.5	0.6	0.6	0.6
Total asset T.O (x)	0.6	0.5	0.5	0.6	0.6	0.7
Int. coverage ratio (x)	11.5	13.6	7.9	2.8	3.2	4.4
Adj. debt/equity (x)	0.6	0.6	0.6	0.7	0.6	0.4
Valuation						
EV/Sales (x)	4.3	4.4	4.0	3.0	2.6	2.3
EV/EBITDA (x)	20.1	15.0	18.7	20.8	13.7	11.8
P/E (x)	34.0	26.2	23.1	59.5	32.1	25.9
P/BV (x)	4.1	3.6	3.1	3.0	2.8	2.5

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
01-Feb-22	Buy	1,010
08-June-22	Accumulate	705
12-Aug-22	Accumulate	855
14-Nov-22	Accumulate	750
17-Feb-23	Accumulate	845
24-May-23	Buy	1,030
25-Sept-23	Buy	1,034

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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