29 May 2024

Update | Sector: Cement

The Ramco Cements

BSE SENSEX	S&P CNX
74,503	22,705

CMP: INR752 TP: INR860 (+14%) Neutral

Volume growth to slow down; leverage to remain high

Limited regional diversity; return ratios remain low

- The Ramco Cements (TRCL) exhibited strong volume CAGR of ~29% over FY22-24, driven by capacity expansion, market share gain, and healthy demand growth in its key markets. Going forward, we estimate the company's volume growth to slow down due to higher base impact, clinker capacity constraints, and capacity expansion (in south region) by peers.
- In the last few years, TRCL's capex has increased significantly. Its cumulative capex over FY20-24 stood at ~INR93b as compared to cumulative OCF of ~INR73b during the same period. This has resulted in a sharp increase in net debt to INR47b vs. INR29b in FY20 and net debt to EBITDA to 3.0x vs. 2.6x in FY20. It is expanding its clinker/grinding capacity by 3.2mtpa/3.0mtpa by FY26E. However, the management has cut capex guidance by INR5b to INR12b for FY25. We estimate cumulative capex of INR30b over FY25-FY26, which would further increase the company's net debt to INR55.5b by FY26.
- TRCL faced significant challenges in the past two quarters. Excessive rains, followed by flooding in key markets in the southern region, adversely impacted cement demand in 3QFY24. Later in 4QFY24, a significant decline in cement price in both key markets (south and east) hurt profitability. We believe that the company's limited regional diversity (75% volume share from the south and 25% from the east) made it more vulnerable to regional challenges.
- Over FY24-26, we estimate a 18% EBITDA CAGR, driven by 8% volume growth and 10% growth in EBITDA/t. We estimate EBITDA/t to improve to INR930/ INR1,000 in FY25/FY26 from INR844/t in FY24; however, this would remain lower than its historical average (over FY16-22) of INR1,230/t. Further, we estimate its ROE/ROCE at ~10%/8% in FY26, which are also significantly lower than historical average (over FY16-22) of 14%/11%. **Key risks to our estimate:** 1) Potential sustained price increases in the company's key markets; and 2) emphasis on deleveraging.
- The stock has de-rated due to sustained concerns of higher leverage, below average profitability, lower return ratio, and limited regional diversity. In our recent 4QFY24 result update, we cut EPS estimates 5% (each) for FY25/FY26. The stock is currently trading at 12x/10x FY25E/FY26E EV/EBITDA (vs. its long-term average of 14x) and USD113/USD103 EV/t (vs. long-term average of USD130). We value the stock at 12x FY26E EV/EBITDA to arrive at our TP of INR860 and maintain our Neutral rating on the stock.

Volume growth to slow down to ~8% CAGR over FY24-26E

- TRCL reported industry leading volume growth of ~29% over FY22-24, driven by capacity expansion, market share gains, and healthy demand growth in its key markets. However, we estimate the company's volume growth to slow down to ~8% over FY24-26E due to – 1) high base impact; 2) clinker capacity constraints as clinker utilization reached ~92%; and 3) capacity expansion by peers in the southern region, primarily in Tamil Nadu and Andhra Pradesh.

Stock Info

Bloomberg	TRCL IN
Equity Shares (m)	236
M.Cap.(INRb)/(USDb)	177.8 / 2.1
52-Week Range (INR)	1058 / 743
1, 6, 12 Rel. Per (%)	-6/-37/-37
12M Avg Val (INR M)	502

Financials Snapshot (INR b)

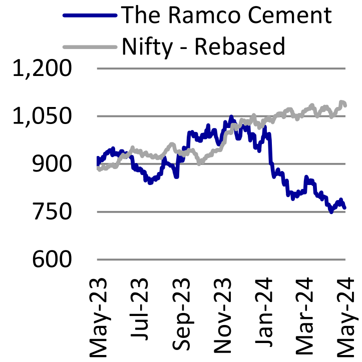
Y/E MARCH	FY24	FY25E	FY26E
Sales	93.5	102.5	111.3
EBITDA	15.5	18.7	21.5
Adj. PAT	3.9	5.8	7.6
EBITDA Margin (%)	16.6	18.3	19.3
Adj. EPS (INR)	16.7	24.5	32.3
EPS Gr. (%)	15.0	46.7	31.9
BV/Sh. (INR)	302	323	352
Ratios			
Net D:E	0.7	0.7	0.7
RoE (%)	5.7	7.8	9.6
RoCE (%)	6.0	7.1	8.0
Payout (%)	15.0	14.3	10.8
Valuations			
P/E (x)	45.0	30.7	23.3
P/BV (x)	2.5	2.3	2.1
EV/EBITDA(x)	13.6	11.9	10.3
EV/ton (USD)	111	113	103
Div. Yield (%)	0.3	0.5	0.5
FCF Yield (%)	-0.5	-0.9	2.0

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	42.3	42.1	42.3
DII	35.6	36.3	35.9
FII	7.4	7.9	7.6
Others	14.7	13.6	14.3

FII Includes depository receipts

Stock performance (one-year)



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- TRCL's clinker capacity registered a CAGR of 12% over FY20-24, while grinding capacity registered a CAGR of 5% over the same period. Higher clinker capacity addition helped it to achieve higher volume growth. In FY24, the company's clinker utilization stood at ~94%. It is further expanding clinker capacity by adding 3mtpa at its Kurnool, Andhra Pradesh plant (brownfield expansion). Clinker capacity is likely to be commissioned by FY26E-end, and we anticipate the company would have limited volume growth opportunities (through optimizing blending ratio) until then.
- Further, peer companies are aggressively expanding capacity in the southern region, mainly in Tamil Nadu and Andhra Pradesh. UTCEM, SRCM, and DALBHARA would commission aggregate grinding capacity of 11.3mtpa by 1HFY25.

Profitability adversely impacted by price correction and higher cost

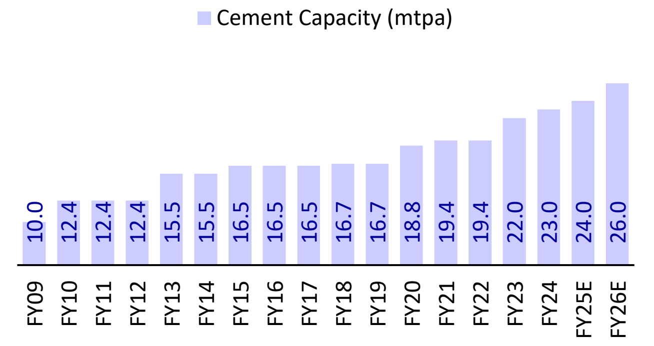
- The Southern region witnessed significant pricing pressure in 4QFY24 and FY24. Cement price declined ~9% QoQ in 4Q (vs. an all-India average price decline of ~7% QoQ) and ~4% YoY in FY24 (vs. all-India average price was flat YoY). The company has higher presence in the southern region, which led to a lower profitability.
- TRCL is one of the low-cost producers in the industry, supported by higher usage of captive power plants (self-sufficient for its power requirement), lower heat consumption (at a less than 700Kcal/kg of clinker), strategic location of plants (average lead distance is less than 300Km) and infrastructure created at plants to scale up operations and drive operating efficiencies. However, in the past two years, the company's blended cement share has declined to ~70-68% in FY23-24 vs. ~75% in FY21-22. This has resulted in a decline in C:C ratio to 1.25x from 1.34x. Lower C:C ratio is resulting in higher clinker cost.
- Although we estimate the company's EBITDA/t to improve to INR930/INR1,000 in FY25/26 vs. INR787/INR844 in FY23/FY24, aided by stable fuel price. However, this would remain lower than its historical average (over FY16-22) of INR1,230/t.

High leverage low ROE, fairly valued; maintain Neutral

- TRCL's net debt increased significantly in the past few years due to higher capex and lower profitability. Its cumulative capex over FY20-24E stood at ~INR93b while its cumulative OCF was ~INR73b during the same period. The company's net debt increased to INR47b from INR29b in FY20 and net debt to EBITDA stood at 3.0x vs. 2.6x in FY20. We estimate the company's cumulative OCF to be INR32b over FY25-26 with a cumulative capex of INR30b over the same period. The company's net debt is estimated to increase to INR55.5b by FY26.
- We estimate the company's return ratios to be lower due to weak profitability and higher capex. The company's ROE/ROCE are estimated at ~10%/8% in FY26E vs. its historical average (over FY16-22) of ~14%/11%.
- The stock is currently trading at 12x/10x FY25E/FY26E EV/EBITDA (vs. its long-term average of 14x) and USD113/USD103 EV/t (vs. long-term average of USD130). We value the stock at 12x FY26E EV/EBITDA to arrive at our TP of INR860 and maintain our Neutral rating on the stock.

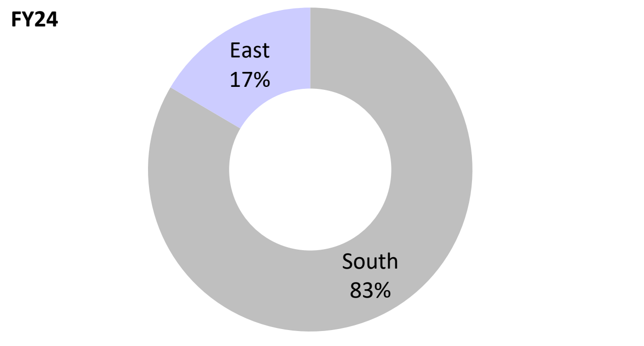
Story in charts

Exhibit 1: TRCL's long-term (FY09-24) capacity CAGR is ~6%



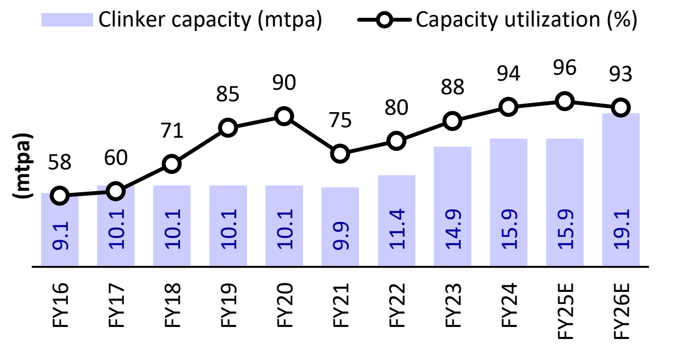
Source: MOFSL, Company

Exhibit 2: TRCL's grinding capacity regional break-up



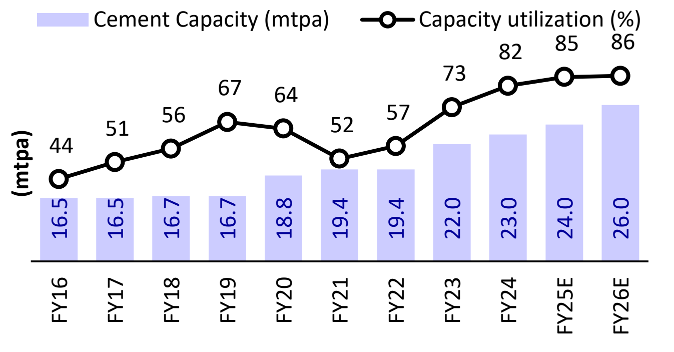
Source: MOFSL, Company;

Exhibit 3: TRCL's clinker capacity and utilizations trend



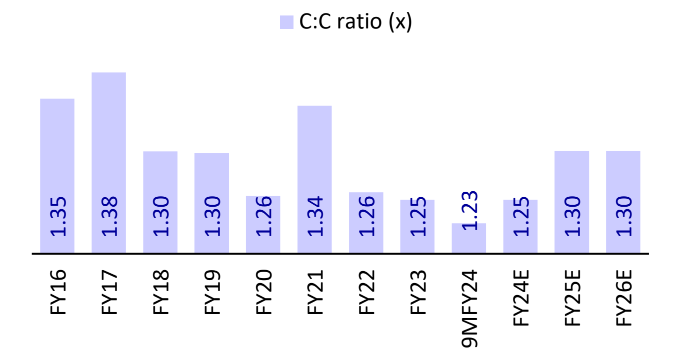
Source: MOFSL, Company;

Exhibit 4: Grinding capacity and utilization trend



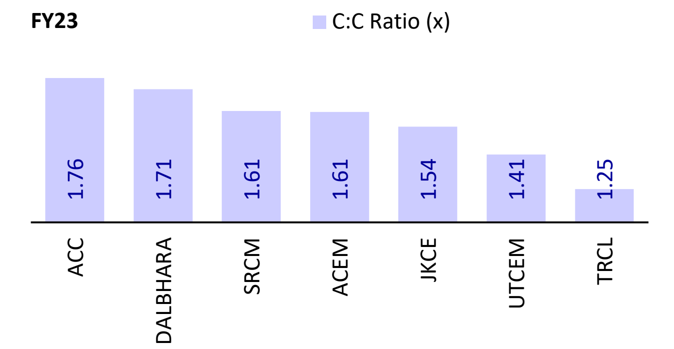
Source: MOFSL, Company;

Exhibit 5: TRCL's C:C ratio declined over the years



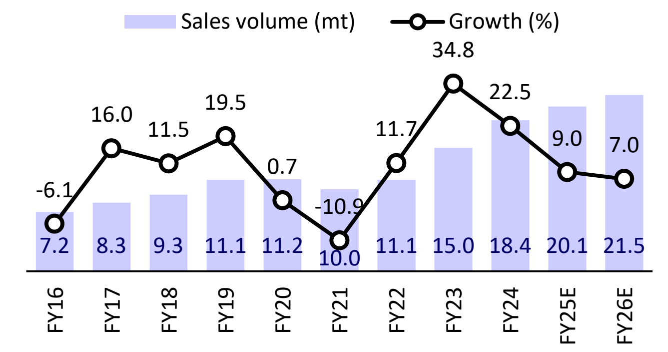
Source: MOFSL, Company

Exhibit 6: TRCL's C:C ratio is the lowest among peers



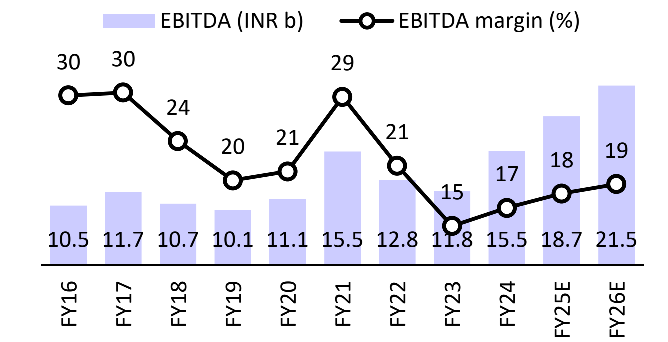
Source: MOFSL, Company

Exhibit 7: Estimate volume CAGR of ~8% over FY24-26



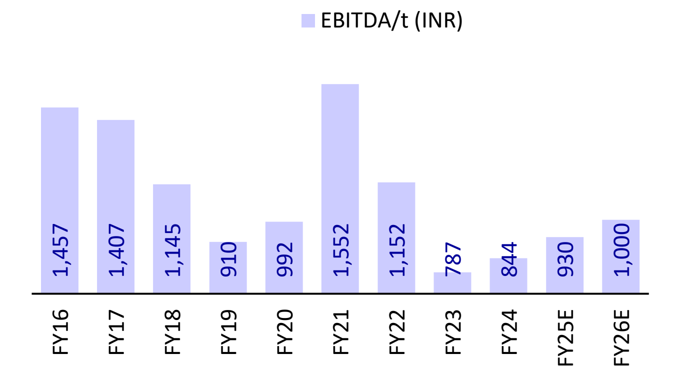
Source: MOFSL, Company

Exhibit 8: Estimate EBITDA CAGR of ~18% over FY24-26



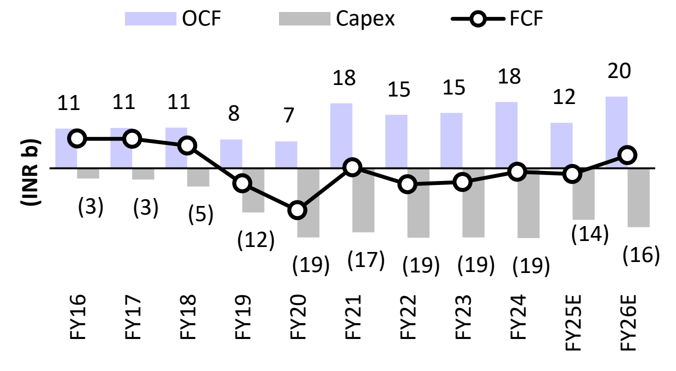
Source: MOFSL, Company

Exhibit 9: TRCL's EBITDA/t trend



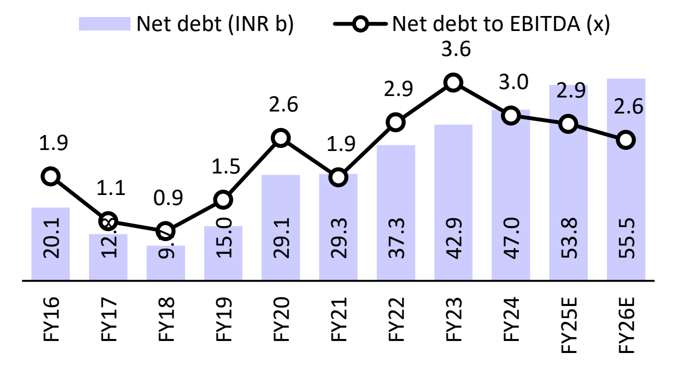
Source: MOFSL, Company

Exhibit 10: Higher capex is estimated to lead to lower FCF



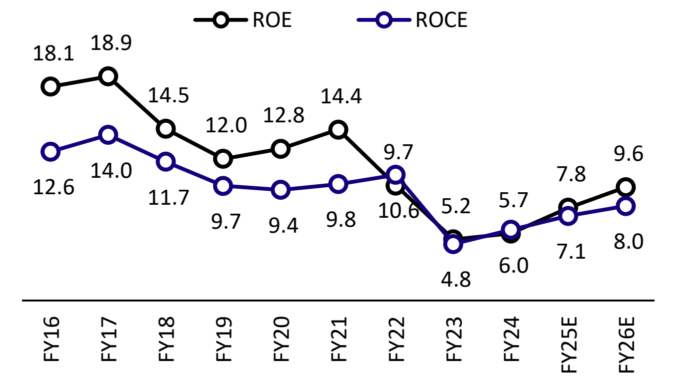
Source: MOFSL, Company

Exhibit 11: Net debt is estimated to keep rising



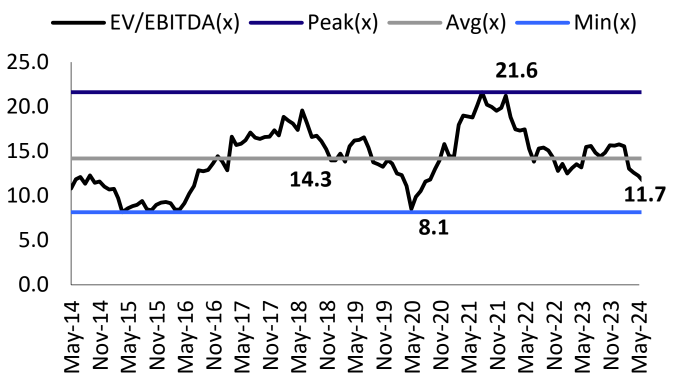
Source: MOFSL, Company;

Exhibit 12: Return ratios to remain low



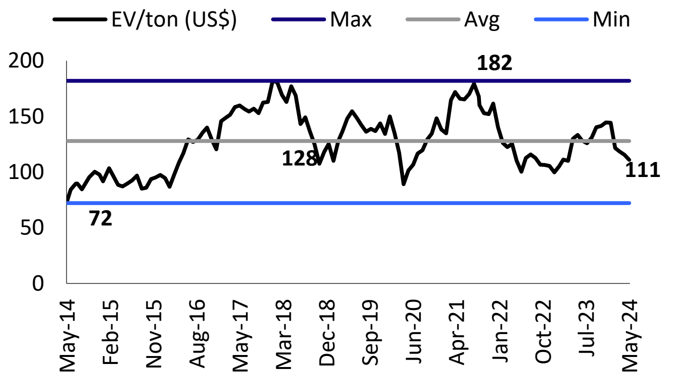
Source: MOFSL, Company;

Exhibit 13: One-year forward EV/EBITDA



Source: MOFSL, Company

Exhibit 14: One-year forward EV/t



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Net Sales	**51,220**	**53,435**	**52,684**	**59,800**	**81,353**	**93,498**	**1,02,515**	**1,11,300**
Change (%)	16.8	4.3	-1.4	13.5	36.0	14.9	9.6	8.6
EBITDA	**10,123**	**11,117**	**15,480**	**12,838**	**11,820**	**15,525**	**18,714**	**21,535**
Margin (%)	19.8	20.8	29.4	21.5	14.5	16.6	18.3	19.3
Depreciation	2,985	3,153	3,553	4,008	5,044	6,359	6,719	7,035
EBIT	**7,138**	**7,964**	**11,927**	**8,830**	**6,775**	**9,167**	**11,995**	**14,499**
Int. and Finance Charges	509	714	876	1,124	2,405	4,155	4,434	4,437
Other Income - Rec.	527	622	346	306	367	423	430	476
PBT bef. EO Exp.	**7,156**	**7,872**	**11,397**	**8,012**	**4,737**	**5,435**	**7,991**	**10,538**
EO Expense/(Income)	30	0	0	0	0	0	0	0
PBT after EO Exp.	**7,126**	**7,872**	**11,397**	**8,012**	**4,737**	**5,435**	**7,991**	**10,538**
Current Tax	1,846	1,393	2,440	1,768	257	409	2,197	2,898
Deferred Tax	221	469	1,346	-2,682	1,045	1,076	0	0
Tax Rate (%)	29.0	23.6	33.2	-11.4	27.5	27.3	27.5	27.5
Reported PAT	**5,059**	**6,011**	**7,611**	**8,927**	**3,435**	**3,950**	**5,793**	**7,640**
PAT Adj for EO items	**5,089**	**6,011**	**7,611**	**5,899**	**3,435**	**3,950**	**5,793**	**7,640**
Change (%)	-9.8	18.1	26.6	-22.5	-41.8	15.0	46.7	31.9
Margin (%)	9.9	11.2	14.4	9.9	4.2	4.2	5.7	6.9

Balance Sheet								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Equity Share Capital	236	236	236	236	236	236	236	236
Total Reserves	44,366	48,950	56,032	65,012	67,699	71,205	76,171	82,984
Net Worth	**44,601**	**49,186**	**56,268**	**65,249**	**67,935**	**71,441**	**76,408**	**83,221**
Deferred Liabilities	8,704	9,172	10,877	8,240	9,285	10,304	10,304	10,304
Total Loans	16,187	30,241	31,017	39,300	44,874	49,168	55,168	57,168
Capital Employed	**69,493**	**88,599**	**98,162**	**1,12,789**	**1,22,095**	**1,30,914**	**1,41,880**	**1,50,693**
Gross Block	84,945	93,901	1,06,223	1,18,037	1,47,329	1,72,397	1,92,182	2,04,182
Less: Accum. Deprn.	33,514	35,757	38,720	42,728	47,772	54,131	60,850	67,886
Net Fixed Assets	**51,431**	**58,144**	**67,503**	**75,309**	**99,557**	**1,18,266**	**1,31,331**	**1,36,296**
Capital WIP	8,308	18,143	23,255	30,340	19,873	13,784	8,000	12,000
Total Investments	**4,294**	**4,275**	**4,369**	**4,220**	**4,209**	**4,397**	**4,397**	**4,397**
Curr. Assets, Loans&Adv.	**17,049**	**19,908**	**18,331**	**20,687**	**21,530**	**25,235**	**30,018**	**32,824**
Inventory	5,597	6,453	5,979	8,333	8,823	9,823	12,639	13,722
Account Receivables	4,900	5,269	3,752	3,498	4,650	8,522	8,426	9,148
Cash and Bank Balance	928	914	1,419	1,760	1,686	1,352	527	806
Loans and Advances	5,625	7,273	7,181	7,095	6,371	5,539	8,426	9,148
Curr. Liability & Prov.	**11,589**	**11,871**	**15,296**	**17,767**	**23,074**	**30,770**	**31,866**	**34,824**
Account Payables	11,179	11,341	14,655	16,985	22,141	29,635	30,895	33,543
Provisions	410	531	641	782	933	1,135	972	1,281
Net Current Assets	**5,461**	**8,037**	**3,035**	**2,920**	**-1,545**	**-5,535**	**-1,849**	**-2,000**
Appl. of Funds	**69,493**	**88,599**	**98,162**	**1,12,789**	**1,22,095**	**1,30,914**	**1,41,880**	**1,50,692**

Source: Company, MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
Basic (INR)								
EPS	**21.6**	**25.5**	**32.3**	**25.0**	**14.5**	**16.7**	**24.5**	**32.3**
Cash EPS	34.3	38.9	47.3	41.9	35.9	43.6	53.0	62.1
BV/Share	189.3	208.8	238.5	276.1	287.5	302.3	323.3	352.2
DPS	3.0	2.5	3.0	3.0	2.0	2.5	3.5	3.5
Payout (%)	16.8	11.8	9.3	7.9	13.8	15.0	14.3	10.8
Valuation (x)								
P/E	34.8	29.5	23.3	30.1	51.7	45.0	30.7	23.3
Cash P/E	22.0	19.3	15.9	17.9	21.0	17.2	14.2	12.1
P/BV	4.0	3.6	3.2	2.7	2.6	2.5	2.3	2.1
EV/Sales	3.6	3.5	3.5	3.1	2.5	2.3	2.2	2.0
EV/EBITDA	18.2	17.0	11.9	14.4	17.0	13.6	11.9	10.3
EV/Ton (USD)	134	122	115	115	110	111	113	103
Dividend Yield (%)	0.4	0.3	0.4	0.4	0.3	0.3	0.5	0.5
Return Ratios (%)								
RoIC	9.3	10.0	11.9	13.5	5.7	6.4	7.2	8.0
RoE	12.0	12.8	14.4	9.7	5.2	5.7	7.8	9.6
RoCE	9.7	9.4	9.8	10.6	4.8	6.0	7.1	8.0
Working Capital Ratios								
Asset Turnover (x)	0.7	0.6	0.5	0.5	0.7	0.7	0.7	0.7
Inventory (Days)	39.9	44.1	41.4	50.9	39.6	38.3	45.0	45.0
Debtor (Days)	34.9	36.0	26.0	21.3	20.9	33.3	30.0	30.0
Creditor (Days)	79.7	77.5	101.5	103.7	99.3	115.7	110.0	110.0
Leverage Ratio (x)								
Current Ratio	1.5	1.7	1.2	1.2	0.9	0.8	0.9	0.9
Debt/Equity	0.4	0.6	0.6	0.6	0.7	0.7	0.7	0.7

Cash Flow Statement								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**
OP/(Loss) before Tax	7,156	7,872	11,397	8,012	4,737	5,435	7,991	10,538
Depreciation	2,985	3,153	3,553	4,008	5,044	6,359	6,719	7,035
Interest & Finance Charges	404	714	876	1,124	2,405	4,155	4,434	4,437
Direct Taxes Paid	-1,584	-1,861	-3,786	915	-1,302	-1,485	-2,197	-2,898
(Inc)/Dec in WC	-929	-2,590	5,507	457	4,390	3,656	-4,510	430
CF from Operations	**8,032**	**7,287**	**17,547**	**14,516**	**15,275**	**18,120**	**12,437**	**19,543**
Others	-127	100	143	30	-166	-88	0	0
CF from Operating incl EO	**7,904**	**7,387**	**17,690**	**14,546**	**15,109**	**18,032**	**12,437**	**19,543**
(Inc)/Dec in FA	-12,018	-18,791	-17,434	-18,900	-18,826	-18,979	-14,000	-16,000
Free Cash Flow	**-4,114**	**-11,404**	**256**	**-4,354**	**-3,717**	**-948**	**-1,563**	**3,543**
(Pur)/Sale of Investments	9	19	-94	150	11	-189	0	0
Others	-2,588	-1,257	1,150	-1,904	935	1,254	0	0
CF from Investments	**-14,597**	**-20,029**	**-16,378**	**-20,654**	**-17,880**	**-17,914**	**-14,000**	**-16,000**
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	7,755	14,054	776	8,282	5,575	4,294	6,000	2,000
Interest Paid	-476	-714	-876	-1,124	-2,405	-4,155	-4,434	-4,437
Dividend Paid	-853	-711	-708	-709	-473	-591	-827	-827
Others	0	0	0	0	0	0	0	0
CF from Fin. Activity	**6,426**	**12,630**	**-808**	**6,450**	**2,697**	**-452**	**739**	**-3,264**
Inc/Dec of Cash	**-266**	**-13**	**504**	**342**	**-74**	**-334**	**-825**	**279**
Opening Balance	1,194	927	915	1,419	1,761	1,686	1,352	527
Closing Balance	**927**	**915**	**1,419**	**1,761**	**1,686**	**1,352**	**527**	**806**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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