

India

HOLD (no change)

Consensus ratings*: Buy 16 Hold 6 Sell 13

Current price: Rs902
 Target price: ▼ Rs950
 Previous target: Rs1,060
 Up/downside: 5.3%
 InCred Research / Consensus: -6.6%

Reuters: TRCE.BO
 Bloomberg: TRCL IN
 Market cap: US\$2,566m
 Rs213,077m
 Average daily turnover: US\$5.6m
 Rs464.5m
 Current shares o/s: 235.6m
 Free float: 47.3%

*Source: Bloomberg

Key changes in this note

- Cut EBITDA by 2% for FY25F-26F.
- Lower target price to Rs950 from Rs1,060 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.2)	(11.8)	24.5
Relative (%)	(8.0)	(19.6)	5.6

Major shareholders	% held
Promoter & Promoter Group	42.1
Kotak Equity Hybrid	6.8
LIC of India	7.0

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Ramco Cements Ltd

In-line 3Q; leverage to remain elevated

- TRCL's 3QFY24 EBITDA was at ~Rs3.95bn (broadly in line), up 39% yoy while flat qoq, mainly due to lower volume. EBITDA/t stood at Rs988, up Rs125 qoq.
- We cut our FY25F-26F EBITDA estimates by 2% to factor in the near-term industry headwinds on volume and pricing. Sharp increase in capex again.
- Retain HOLD rating with a lower target price of Rs950 as we believe the higher leverage and capex disconnect will continue to weigh on investor sentiment.

Slower volume growth; pricing stays soft in Jan 2024 in South India

3QFY24 cement volume of The Ramco Cements (TRCL) declined by 13% qoq but rose by 10% yoy to 4mt. During 3Q, South India volume was lost (~0.3mt) due to unseasonal rains and flooding in Tamil Nadu/Andhra Pradesh followed by the festive season during the quarter. Volume share of the southern & eastern regions remained at 75% and 25% respectively, similar yoy. Capacity utilization was at 74% vs. 82% qoq. TRCL has grown its volume in every market (states) except West Bengal (marginal decline). Further, TRCL aims to have 5mt volume in 4QFY24F (based on demand recovery), 17.5mt in FY24F and ~19-20mt in FY25F. Blended realization was up by ~4% qoq owing to price hikes during 3Q. Prices continued to remain under pressure in Jan 2024, especially in South India, and management expects cement prices to remain volatile in the near term.

Blended EBITDA/t at ~Rs988 due to negative operating leverage

Total cost/t was up 2% (down ~10% yoy) at Rs4,277, with higher fixed costs. Raw material + P&F costs/t were down by 4% qoq, fuel consumption costs at US\$138/t (on per kcal basis they fell to Rs1.64 vs. Rs1.75 qoq and Rs2.43 yoy) vs. US\$148/t qoq and US\$191 yoy. The spot pet-coke/coal costs stood at US\$118/t and US\$47/t, respectively. However, P&F costs/t are likely to decline by ~US\$5-10 in the coming quarters, as per the company. Green energy consumption was at 36% vs. 20% yoy due to a change in the use of wind power for captive purposes, and this should rise to ~42%/48% by FY25F/26F, respectively. Freight costs/t were up 5% qoq on busy season surcharge. Fixed costs rose by 4% yoy & 18% qoq. Going ahead, we feel cost deflation will remain in line with coal/pet-coke prices.

Leverage to remain elevated as it increases growth capex

Net debt rose to Rs49.9bn as of Dec 2023 (peaked out) vs. Rs49.7bn as of Sep 2023 due to high capex intensity. TRCL incurred a huge capex of ~Rs16.1bn in 9MFY24 and revised its guidance for FY24F to Rs20bn (Rs16bn earlier). TRCL expects FY25F capex to be around Rs17bn. Most of the capex will be funded via internal accruals and the company can monetize its non-core assets if required. The company announced line-2 addition at Kurnool with clinker and cement capacity of 3.15mt and 1.5mt, respectively, (with 15MW of WHRS) at an investment of Rs12.5bn, which is likely to be commissioned by FY26F.

Retain HOLD rating with a lower TP of Rs950; further upside capped

TRCL trades at EV/EBITDA multiple of 13.8/12.4x for FY25F/26F, respectively. We retain HOLD rating on it with a Mar 2025F TP of Rs950 (Rs1,060 earlier), set at one-year forward EV/EBITDA of 13x (14x earlier). **Downside risks:** Weak demand and pricing, delay in commissioning of capacity. **Upside risks:** Better-than-expected demand and pricing growth in South & East India markets, sharp deleveraging and better cost control.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	59,800	81,353	92,515	101,538	112,567
Operating EBITDA (Rsm)	12,838	11,820	16,876	19,450	21,576
Net Profit (Rsm)	8,927	3,435	4,957	6,515	7,781
Core EPS (Rs)	37.8	14.5	21.0	27.6	32.9
Core EPS Growth	17.1%	(61.6%)	44.3%	31.4%	19.4%
FD Core P/E (x)	23.83	62.03	42.99	32.71	27.38
DPS (Rs)	3.0	2.0	2.9	3.8	4.5
Dividend Yield	0.33%	0.22%	0.32%	0.42%	0.50%
EV/EBITDA (x)	19.50	21.68	15.70	13.86	12.37
P/FCFE (x)	147.40	71.77	19.86	18.26	14.54
Net Gearing	57.5%	63.6%	72.0%	73.0%	64.1%
P/BV (x)	3.27	3.14	2.96	2.75	2.54
ROE	14.7%	5.2%	7.1%	8.7%	9.6%
% Change In Core EPS Estimates			(0.56%)	(0.51%)	(0.48%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

In-line 3Q; leverage to remain elevated

3QFY24 results review and earnings-call takeaways

Key operational highlights of the quarter

- **Volume:** Cement sales volume (including dry mortar products) stood at 4mtpa, up ~10% yoy and down 13% qoq (~1% below Incred estimate and ~5% below Bloomberg consensus estimate). Capacity utilization stood at ~74% during the quarter vs. ~82% qoq mainly due to unseasonal heavy rainfall in Tamil Nadu and Andhra Pradesh during the quarter. In South India, volume of B2C & B2B segments grew yoy. The share of premium products was at 29% vs. 30% yoy. Volume share in 3QFY24 stood at 75% vs. 81% qoq and 76% yoy.
- The company lost ~0.3mt volume due to unseasonal rains in its key markets and holidays during the quarter. According to management, except west Bengal (marginal decline), the company has grown in all other eastern markets and southern markets.
- **Blended realization:** It stood at Rs5,265/t, up ~4% qoq and down ~5% yoy (2% above Incred estimate) due to soft pricing during the quarter. Further, as per management, cement prices are under pressure currently.
- **Total operating costs/t:** They were up ~2% qoq and down 10% yoy to Rs4,277 vs. our estimate of Rs4,189, where P&F costs/t declined to Rs1,384 from Rs1,931 yoy and up from Rs1,358 qoq (blended fuel consumption/t stood at US\$138 vs. US\$148 qoq and US\$191 yoy during the quarter; on Kcal basis, they stood at Rs1.64 in 3Q vs. Rs1.75 qoq and Rs2.43 yoy). Logistics costs/t increased by ~5% qoq to Rs1,333. Fixed costs/t increased by ~18% qoq to Rs1,000.
- Prices of spot pet-coke and 3400 GAR coal from Indonesia stood at US\$118/t and US\$47/t, respectively. With the easing of pet-coke prices now, the blended fuel consumption for 4QFY24F may come down by US\$5-US\$10/t.
- The overall green power usage has significantly improved to ~36% in 3QFY24 from ~20% in 3QFY23 in view of the change in utility of wind power for captive purposes. The green power share is likely to touch 42% in FY25F and 48% in FY26F.
- **EBITDA & EBITDA/t:** For the quarter, EBITDA stood at ~Rs3.95bn vs. our expectation of ~Rs3.97bn, up 39% yoy and down 1% qoq. EBITDA/t stood at Rs988 during the quarter (vs. our estimate of Rs985/t) vs. Rs865 qoq and Rs783 yoy.
- TRCL reported that PAT was up ~39% yoy and down 8% qoq at ~Rs934m vs. our expectation of Rs948m. Interest costs increased by 67% yoy to Rs1.02bn. During 9MFY24, the average interest cost increased to 7.82% vs. 6.16% in 9MFY23.

Other updates:

- **Net debt:** It stood at ~Rs49.9bn as of Dec 2023-end vs. Rs49.66bn qoq. Net debt/EBITDA stood at 3.22x vs. 3.01x qoq. Management expects peak debt to remain around ~Rs50bn, with more focus on free cash flow for meeting capex requirement. The company is waiting for a proper valuation to monetize its land assets.
- **Capex:** The company has incurred a capex of Rs16.1bn in 9MFY24 and Rs3.85bn in 3QFY24.
- **New capex:** The company proposes to double its clinker capacity in Kolimigundala to 6.3mtpa and cement capacity to 3mtpa with additional waster heat recovery system or WHRS capacity of 15MW at an estimated cost of Rs12.5bn, which is likely to be commissioned by 4QFY26F. It will be funded through a mix of both internal accruals and borrowed funds.

- Capex guidance raised to Rs20bn (Rs16bn earlier) for FY24F and Rs17bn for FY25F, which will be funded mostly through internal accruals. The increase in FY24F capex is mainly due to the acquisition of land and debottlenecking.
- Approx. break-up of FY25F capex is as follows: Rs7.5bn for Kurnool line-2, Rs2bn for land acquisition, Rs3bn for maintenance capex, Rs1bn for RR Nagar dry mortar products and Rs2bn for Kurnool line-1.
- **Sales mix:** OPC segment's share in 9MFY24 stood at 32% (28% in 9MFY23) and B2B segment's share in 9MFY24 at 35% (33% in 9MFY23).
- **Other operational parameters:** 1) Rail co-efficient for 3QFY24 stood at 9% vs. 10% yoy/ 7% qoq. 2) Lead distance in 3QFY24 at 282km vs. 299km yoy/ 259km qoq. 3) Fuel mix: Coal/AFR/pet-coke share at 43%/6%/51% in 3QFY24 vs. 40%/7%/53%, respectively, in 2QFY24.
- The company has acquired 500 acres of land for mining in Karnataka.
- TPP of 18MW will be commissioned during Mar 2024F and railway siding will be commissioned during Jun 2024F. Expansion of dry mortar plant: Two units – one each in Andhra Pradesh & Odisha will be commissioned during Mar 2024F.
- The company will be establishing a WHRS of 10MW capacity at its Ramasamy Raja Nagar plant at a cost of Rs.1.53bn, which will be commissioned by FY25F. It is already in the necessary approval stage. With this installation, the total WHRS capacity would increase from 43MW to 53MW by FY25F.
- During 3QFY24, the company increased its clinker capacity by 0.65mtpa at Kolimigundla and 0.35mtpa at Ariyalur through pyro process optimization. With this, the installed capacity of clinker stands at 16mtpa. The company has identified the opportunities for debottlenecking of cement capacity aggregating to 1mtpa in FY25F.
- The company's windfarms, including that of its subsidiary, have an installed capacity of 166MW and with an average plant load factor or PLF of ~25%, the generation of wind energy for captive use is expected to be around 42MW.

Figure 1: Standalone quarterly performance

Particulars (Rs m)	3QFY24	3QFY24F	2QFY24	3QFY23	% Change		
					3QFY24F	2QFY24	3QFY23
Net Sales	21,061	20,868	23,293	20,088	1%	-10%	5%
Raw Materials Consumed	2,240	2,864	3,308	1,885	-22%	-32%	19%
Freight and Forwarding Expenses	5,334	5,318	5,835	4,854	0%	-9%	10%
Power and Fuel Costs	5,536	5,405	6,262	7,023	2%	-12%	-21%
Employee Costs	1,368	1,198	1,385	1,128	14%	-1%	21%
Other expenses	2,630	2,110	2,517	2,352	25%	5%	12%
Total Expenditure	17,108	16,896	19,307	17,241	1%	-11%	-1%
EBITDA	3,954	3,973	3,986	2,846	0%	-1%	39%
Depreciation	1,655	1,600	1,574	1,359	3%	5%	22%
EBIT	2,299	2,373	2,412	1,488	-3%	-5%	55%
Interest	1,019	1,191	1,165	608	-14%	-13%	67%
Other Income	70	99	135	93	-30%	-48%	-25%
PBT	1,350	1,281	1,382	972	5%	-2%	39%
Tax	416	333	369	299	25%	13%	39%
Recurring PAT	934	948	1,013	674	-2%	-8%	39%
Extraordinary Items	0	0	0	0			
Reported PAT	934	948	1,013	674	-2%	-8%	39%
EPS (Rs)	4.0	4.0	4.3	2.9	-2%	-8%	39%
Gross Margin	37.8%	34.9%	33.9%	31.5%	287 bp	389 bp	626 bp
EBITDA Margin	18.8%	19.0%	17.1%	14.2%	-26 bp	166 bp	460 bp
EBIT Margin	10.9%	11.4%	10.4%	7.4%	-46 bp	56 bp	351 bp
PBT Margin	6.4%	6.1%	5.9%	4.8%	27 bp	48 bp	157 bp
PAT Margin	4.4%	4.5%	4.3%	3.4%	-11 bp	8 bp	108 bp
Tax Rate	30.8%	26.0%	26.7%	30.7%			
Cost Items as a % of Sales							
Raw Material Costs	62%	65%	66%	69%	-287 bp	-389 bp	-626 bp
Employee Costs	6%	6%	6%	6%	75 bp	55 bp	88 bp
Other Expenses	12%	10%	11%	12%	238 bp	168 bp	78 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

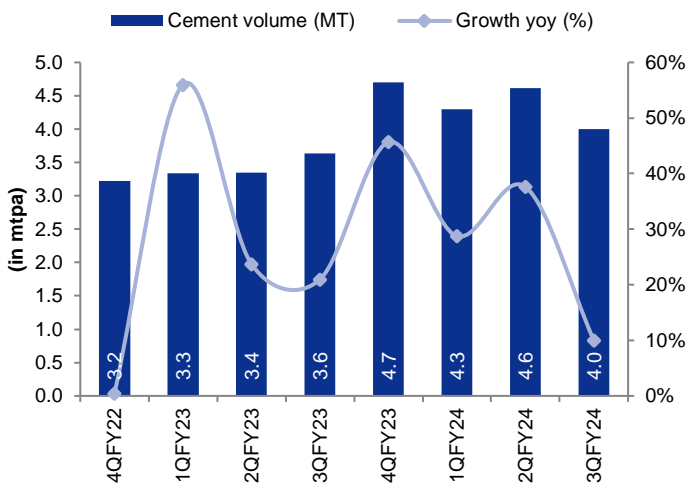
Figure 2: 3QFY24 results on per tonne analysis

Per tonne analysis	3QFY24	3QFY24F	2QFY24	3QFY23	% Change		
					3QFY24F	2QFY24	3QFY23
Sales volume (cement + clinker)	4.00	4.03	4.61	3.64	-1%	-13%	10.0%
Realization	5,265	5,174	5,053	5,523	2%	4.2%	-5%
EBITDA/t	988	985	865	783	0%	14%	26%
RM costs/t	560	710	717	518	-21%	-22%	8%
P&F costs/t	1,384	1,340	1,358	1,931	3%	2%	-28%
Freight costs/t	1,333	1,319	1,266	1,335	1%	5%	0%
Employee costs/t	342	297	300	310	15%	14%	10%
Other expenses/t	658	523	546	647	26%	20%	2%
Total cost/t	4,277	4,189	4,188	4,741	2%	2%	-10%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

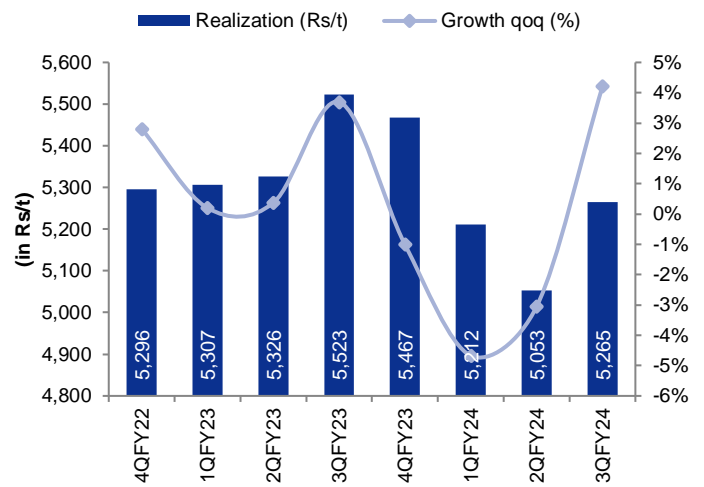
Key charts ➔

Figure 3: Cement sales volume was up by ~10% yoy and ~down by 13% qoq to 4mt



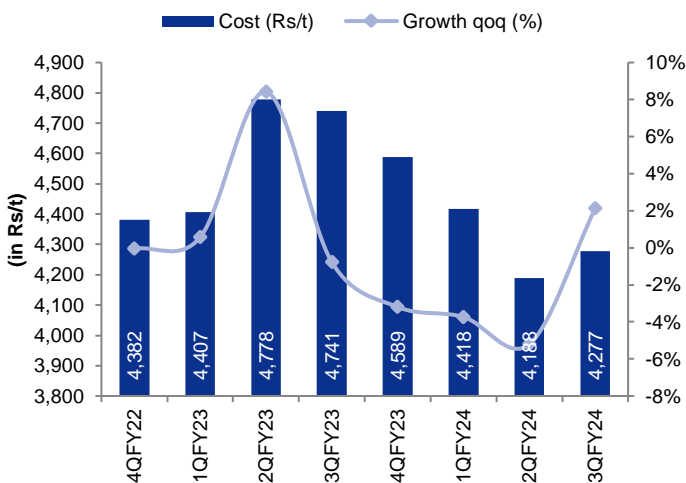
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Blended realization was down ~5% yoy but up ~4% qoq



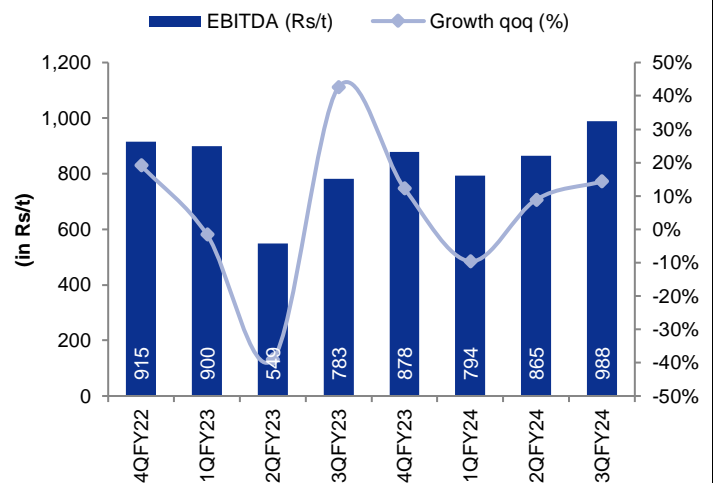
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Cost/t declined by ~10% yoy while it was up ~2% qoq



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Unit EBITDA improved by Rs124 qoq to Rs988/t vs. our expectation of Rs985/t



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs. m	New			Old			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Sales	92,515	1,01,538	1,12,567	95,440	104,467	113,305	-3%	-3%	-1%
EBITDA	16,876	19,450	21,575	17,470	19,750	21,975	-4%	-2%	-2%
PAT	4,957	6,515	7,781	5,452	6,947	8,346	-10%	-7%	-7%
EPS (Rs.)	21.0	27.6	32.9	23	29	35	-10%	-7%	-7%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: Changes in our estimates vs. Bloomberg consensus estimates

Rs. m	InCred			Consensus			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Sales	92,515	1,01,538	1,12,567	95,304	1,04,913	1,12,472	-3%	-3%	0%
EBITDA	16,876	19,450	21,575	17,106	20,613	22,729	-1%	-6%	-5%
PAT	4,957	6,515	7,781	5,681	8,150	9,923	-13%	-20%	-22%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

Figure 9: Key assumptions

	FY22	FY23F	FY24F	FY25F	FY26F
Volume (mtpa)	11	15	18	19	21
yoy	11%	34%	20%	8%	9%
Realisation (per tonne)	5,413	5,488	5,153	5,225	5,317
yoy	3%	1%	-6%	1%	2%
Cost (per tonne)	4,251	4,690	4,252	4,261	4,333
yoy	14%	10%	-9%	0%	2%
EBITDA (per tonne)	1,162	797	949	1,010	1,027
yoy	-25%	-31%	19%	6%	2%
EBITDA (Rs m)	12,837	11,818	16,876	19,450	21,575
yoy	-17%	-8%	43%	15%	11%

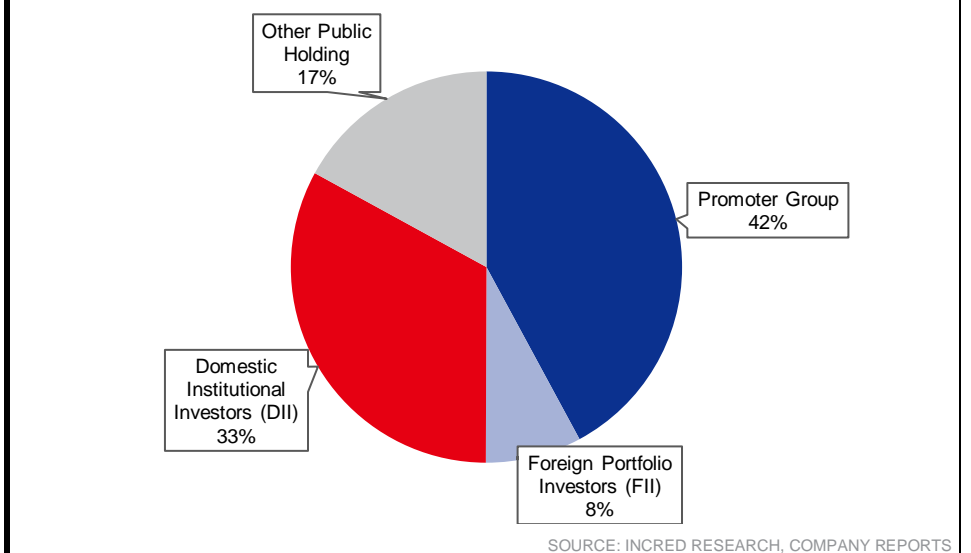
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Maintain HOLD rating on the stock with a Mar 2025F target price of Rs950, set at a one-year forward EV/EBITDA of 13x

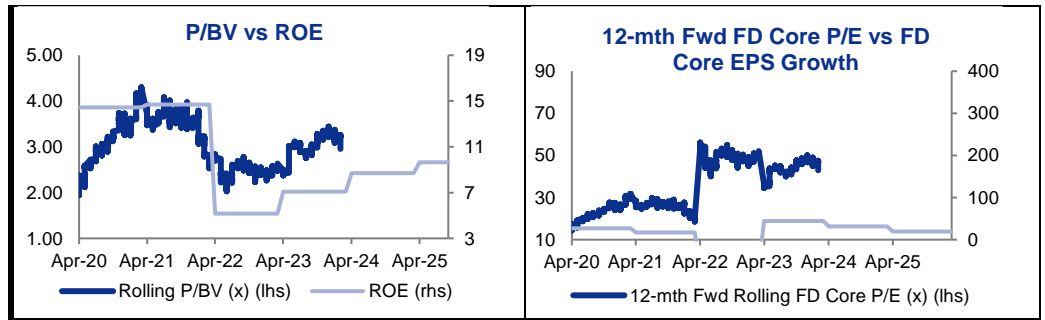
Valuation	TP
Target EV/EBITDA (x)	13.0
Target EV (Rs m)	2,80,480
Net debt / (cash) (Rs m)	56,588
No. of shares (m)	236
Fair value per share (Rs)	950

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: TRCL's shareholding pattern (as of Dec 2023-end)



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	59,800	81,353	92,515	101,538	112,567
Gross Profit	59,800	81,353	92,515	101,538	112,567
Operating EBITDA	12,838	11,820	16,876	19,450	21,576
Depreciation And Amortisation	(4,008)	(5,044)	(6,376)	(6,727)	(7,063)
Operating EBIT	8,830	6,775	10,500	12,723	14,513
Financial Income/(Expense)	(1,124)	(2,405)	(4,161)	(4,286)	(4,372)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	306	367	360	367	374
Profit Before Tax (pre-EI)	8,012	4,737	6,699	8,804	10,515
Exceptional Items					
Pre-tax Profit	8,012	4,737	6,699	8,804	10,515
Taxation	915	(1,302)	(1,742)	(2,289)	(2,734)
Exceptional Income - post-tax					
Profit After Tax	8,927	3,435	4,957	6,515	7,781
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,927	3,435	4,957	6,515	7,781
Recurring Net Profit	8,927	3,435	4,957	6,515	7,781
Fully Diluted Recurring Net Profit	8,927	3,435	4,957	6,515	7,781

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	12,838	11,820	16,876	19,450	21,576
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(84)	(3,224)	(296)	(1,168)	(1,082)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	306	367	360	367	374
Other Operating Cashflow	(1,561)	8,794	10,294	11,794	13,294
Net Interest (Paid)/Received	(1,124)	(2,405)	(4,161)	(4,286)	(4,372)
Tax Paid	915	(1,302)	(1,742)	(2,289)	(2,734)
Cashflow From Operations	11,291	14,050	21,332	23,869	27,056
Capex	(18,095)	(17,628)	(20,200)	(17,200)	(10,200)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	(8)	759	800	1,000	300
Cash Flow From Investing	(18,103)	(16,869)	(19,400)	(16,200)	(9,900)
Debt Raised/(repaid)	8,256	5,788	8,800	4,000	(2,500)
Proceeds From Issue Of Shares	23		(825)	(1,085)	(1,296)
Shares Repurchased					
Dividends Paid	(709)	(473)	(825)	(1,085)	(1,296)
Preferred Dividends					
Other Financing Cashflow	(416)	(2,571)	(8,969)	(10,209)	(11,798)
Cash Flow From Financing	7,154	2,745	(1,820)	(8,379)	(16,890)
Total Cash Generated	342	(75)	112	(711)	266
Free Cashflow To Equity	1,444	2,969	10,732	11,669	14,656
Free Cashflow To Firm	(5,689)	(414)	6,093	11,954	21,528

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	1,760	1,686	1,797	1,086	1,353
Total Debtors	3,498	4,650	4,562	5,286	5,860
Inventories	8,333	8,823	9,632	10,571	11,719
Total Other Current Assets	3,454	3,715	4,718	5,178	5,853
Total Current Assets	17,046	18,874	20,710	22,122	24,785
Fixed Assets	75,309	99,557	113,181	123,454	126,391
Total Investments	4,220	4,209	4,409	4,609	4,809
Intangible Assets	30,340	19,873	18,873	17,673	17,173
Total Other Non-Current Assets	3,641	2,656	2,856	3,056	3,256
Total Non-current Assets	113,510	126,295	139,319	148,792	151,629
Short-term Debt	10,727	8,653	11,453	12,953	12,453
Current Portion of Long-Term Debt					
Total Creditors	4,892	6,373	7,885	7,814	7,872
Other Current Liabilities	12,165	15,812	15,728	16,754	18,011
Total Current Liabilities	27,784	30,837	35,065	37,521	38,336
Total Long-term Debt	28,573	36,222	42,222	44,722	42,722
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	8,949	10,175	10,675	11,175	11,375
Total Non-current Liabilities	37,522	46,397	52,897	55,897	54,097
Total Provisions					
Total Liabilities	65,307	77,234	87,962	93,417	92,432
Shareholders Equity	65,249	67,935	72,066	77,496	83,981
Minority Interests					
Total Equity	65,249	67,935	72,066	77,496	83,981

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	13.5%	36.0%	13.7%	9.8%	10.9%
Operating EBITDA Growth	(17.1%)	(7.9%)	42.8%	15.3%	10.9%
Operating EBITDA Margin	21.5%	14.5%	18.2%	19.2%	19.2%
Net Cash Per Share (Rs)	(158.86)	(182.77)	(219.54)	(239.47)	(227.77)
BVPS (Rs)	276.13	287.50	304.98	327.96	355.40
Gross Interest Cover	7.86	2.82	2.52	2.97	3.32
Effective Tax Rate		27.5%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	7.9%	13.8%	13.8%	13.8%	13.8%
Accounts Receivables Days	22.12	18.28	18.17	17.70	18.07
Inventory Days	43.68	38.49	36.41	36.31	36.14
Accounts Payables Days	33.14	29.57	34.40	34.90	31.46
ROIC (%)	8.2%	5.8%	8.1%	9.0%	10.1%
ROCE (%)	9.2%	6.2%	8.8%	9.8%	10.6%
Return On Average Assets	8.2%	4.2%	6.0%	6.5%	7.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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