

July 23, 2021

Margin stays firm; outlook remains healthy...

About the stock: UltraTech is the **largest cement manufacturer** in India with a domestic capacity of 111.4 MT (23% of total market) with a leadership position in most regions (excluding east). It has grown through organic and inorganic routes and added around ~30 MT of capacity in the last three years.

- It has shown its capability to successfully integrate the acquired assets and ramped-up its utilisations in a profitable manner
- The company is now **focusing on fast growing market of eastern India**, which accounts for 10.2 MT of its total 19.6 MT planned expansion over FY21-23E

Q1FY22 Results: UltraTech surprised positively on the margin front in Q1FY22 leading to better profitability despite 17.8% QoQ drop in revenues.

- Clocked revenue of ₹ 11,477 crore, down 17.8% QoQ led by sales volumes de-growth of 22.8% to 20.5 MT. On YoY basis, revenues were up 55.6%
- EBITDA/t up 17% QoQ to ₹ 1,545/t (vs. last quarter EBITDA/t of ₹ 1321/t). EBITDA margin was at 27.6%, up 249 bps QoQ, 112 bps YoY
- Ensuing PAT was at ₹ 1,681 crore, up 108.7% YoY, down 5.4% QoQ vs. our estimate: ₹ 1457 crore)

What should investors do? Market leadership, strong brand with highest retail presence and robust balance sheet justifies UltraTech's premium valuations.

- With a target to become net debt free by FY23E and expected RoCE of 17%+, we remain positive on company. Hence, we maintain **BUY** rating

Target Price and Valuation: We value UltraTech at ₹ 8,700 i.e. 17x FY23E EV/EBITDA

Key triggers for future price performance:

- The new organic capacities are being added at lower capital cost (US\$60/t) that will help in boosting return ratios (to generate 16-18% IRR)
- Despite capex plans, the company also aims **to become net debt-free by FY23E** supported by strong operating cash flows (from existing and acquired assets) and through efficient w/cap management

Alternate Stock Idea: Apart from UltraTech, in our cement sector coverage we also like ACC.

- It has strong balance sheet with debt free status. The company is focusing on cost reduction and also adding new capacities via internal accruals

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales (₹ crore)	29526	39933	40634	43188	13.5	50045	55410	13.3
EBITDA (₹ crore)	5826	7076	8652	10964	23.5	12844	14558	15.2
EBITDA (%)	19.7	17.7	21.3	25.4		25.7	26.3	
Adjusted PAT (₹ crore)	2458	2530	3574	5506	30.9	6865	8037	20.8
EPS (₹)	89.6	87.7	123.8	190.8		237.9	278.5	
EV/EBITDA	37.4	32.3	26.3	20.2		17.1	14.6	
EV/t (\$)	367.7	288	286	279		274	232	
RoNW (%)	9.5	7.6	9.3	12.7		14.0	14.4	
RoCE (%)	10.0	9.0	11.4	14.7		16.7	17.9	

Source: Company, ICICI Direct Research



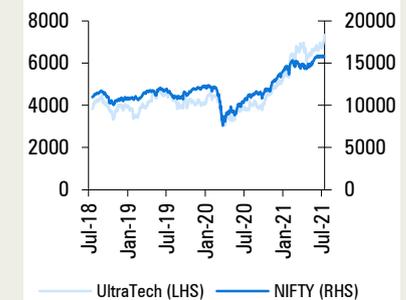
Particulars

Particulars	Amount
Mcap	₹ 215275 crore
Debt (FY21)	₹ 14915 crore
Cash & Invest (FY21)	₹ 1881 crore
EV	₹ 228308 crore
52 week H/L	₹ 7543/₹ 3736
Equity cap	₹ 288.2 crore
Face value	₹ 10

Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	60.0	59.9	60.0	60.0
FII	16.1	15.3	16.8	17.3
DII	14.6	15.5	14.2	13.8
Others	9.3	9.3	9.1	8.9

Price Chart



Key risks

- Any delay in commissioning of new capacity may impact return ratios
- Volatility in prices of imported coal/petcoke may impact margins

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Key performance highlights

- Domestic sales volumes were at 20.5 MT (down 22.8% QoQ) while blended realisations were higher by 6.4% QoQ to ₹ 5,590/tonne, up 5.7% YoY
- Capacity utilisation was at 73% vs. 94% in Q4FY21. In terms of regions, south reported over 50% utilisation. North & central reported utilisation of over 73% while east region operated at over 90% capacity utilisation
- Cost of production was up 2.9% QoQ to ₹ 4045/t led by a sharp rise in diesel, petcoke, coal prices that were up 6%, 12%, 19%, respectively, QoQ
- However, EBITDA/t improved sequentially by 17% to ₹ 1545/t (vs. I-direct estimate: ₹ 1,375/t) on the back of higher realisations

Key conference call highlights

- Demand:** Demand is picking up on all fronts, strong in central & east region. Large infra projects are expected to continue to generate demand especially the roads segment as awarding and execution. Both picked up with constructions speed of 37 km/day now vs. 4-5 km/day long time back. Further, rural housing is seeing a gradual recovery supported by higher MSP for Kharif crop, increased procurement by government agencies
- Cost of production:** Higher petcoke & coal prices are expected to continue to keep costs higher. No major spike is expected in fixed overheads post resumption of normalcy. DFC will be the game changer, helping to bring down freight costs. UNCL (erstwhile Binani) is connected to DFC
- Cement Prices:** Witnessed price hikes of over 10% in East & South, 7-10% in North & West regions and 3-6% in the Central regions. Cement prices are expected to continue to remain strong, going forward. However, the ongoing monsoon may lead to a flattish price trend in the near term
- Clinker/Limestone:** Are expected to become dearer in the long term and act as a key entry barrier. The company does not have limestone issues for additional ~50 MT capacity
- Expansion:** On track to reach 130.9 MT by FY23E. Total 3.2 MT in East & Central to be added in Q2FY22E, 4.1 MT in Q2FY23E and balance 12.2 MT to get commissioned by Q4FY23E. Incurred capex of ₹ 1000 crore in Q1FY22
- Debt:** Long term debt is at ₹ 19,000 crore with treasury surplus of ₹ 13,000 crore. The company repaid ₹ 5,000 crore long term debt in July 2021

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Net Sales	11,477	11,424	7,374	55.6	13,966	-17.8	Capacity utilisation stood at 73% vs 94% in Q4FY21.
Total operating cost	8,305	8,503	5,418	53.3	10,453	-20.6	
EBITDA	3,172	2,921	1,955	62.2	3,512	-9.7	
EBITDA Margin (%)	27.6	25.6	26.5	112 bps	25.2	249 bps	Higher realisations aided in the margin expansion
PAT	1,681	1,457	806	108.7	1,778	-5.4	

Key Metrics

Volume (MT)	20.5	21.3	13.9	47.3	26.6	-22.8
Realisation (₹)	5,590	5,376	5,290	5.7	5,252	6.4
EBITDA per Tonne (₹)	1,545	1,375	1,403	10.2	1,321	17.0

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	49,541.2	50,044.9	1.0	55,065.7	55,409.6	0.6	Volume growth to remain healthy in FY22E & FY23E
EBITDA	12,007.3	12,843.6	7.0	13,582.9	14,557.5	7.2	Operating leverage to keep margins healthy going ahead
EBITDA Margin (%)	24.2	25.7	143 bps	24.7	26.3	161 bps	
PAT	6,233.7	6,864.6	10.1	7,364.9	8,037.4	9.1	
EPS (₹)	216.0	237.9	10.1	255.2	278.5	9.1	

Source: Company, ICICI Direct Research

Key triggers for future price performance

Target total capacity of 160 MT by FY30E; to reach 131 MT by FY23E

The target of reaching 160 MT by FY30E from 111.4 MT indicates capacity CAGR of 3.7% in FY20-30E. The newly announced cement capacity expansion of 12.8 MT (9.1 MT clinker capacity) along with ongoing capex of 6.7 MT would take its total capacity to 130.9 MT by end of FY23E. Region wise, major capacities are being added in eastern and central region (73% of 19.5 MT), which has lowest road and power density per capita representing higher growth potential while rural population share remains one of the higher, offering stability in prices. Balance 27% of new capacities are being added in the north region. Furthermore, as these new organic capacities are being added at lower capital costs (US\$60/t), it will help in boosting return ratios (new capacity to generate 15%+ IRR)

Efficiency measures to help sustain margins; b/s to stay firm

While there is uncertainty in the cost inflation with respect to price fluctuations in petcoke and diesel prices, the management's focus on consolidating the acquired assets, driving synergies, especially on the logistics front, improving premium segment share (to increase from 10% to 15% in two years) and containing fixed overheads on sustainable basis provides cushion against risk of margin erosion going forward. On the leverage front, the net debt/EBITDA is now at 0.5x vs. 1.72x last year

Valuation & Outlook

UltraTech has successfully integrated acquired assets while protecting its b/s. Given the positive outlook, the new capex targeting central and east region would address the issue of capacity constraint post FY24E. With a target to become net debt free by FY23E and with RoCE of 17%+, we remain positive on the company and maintain BUY rating with a revised target price of ₹ 8700/share (i.e. 17x FY23E EV/EBITDA, earlier target price ₹ 7,500/share).

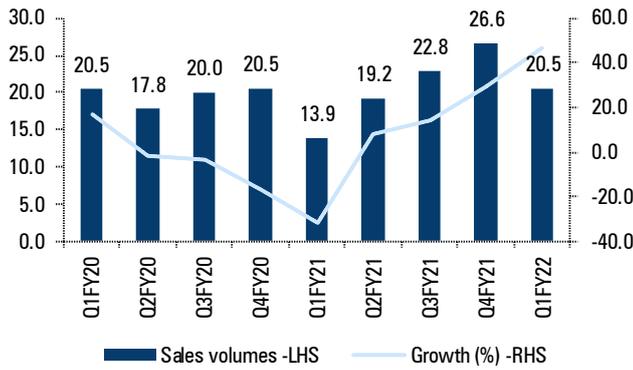
Exhibit 3: Valuation matrix

	Sales (₹ cr)	Gr (%)	EPS (₹)	Gr (%)	PE (x)	EV/Tonne (₹)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	39933.3	4.7	87.7	12.8	89.1	288	32.3	7.3	9.0
FY20	40634.2	1.8	123.8	41.2	39.5	286	26.3	9.3	11.0
FY21	43188.4	6.3	190.8	54.1	40.3	279	20.2	12.7	14.6
FY22E	50044.9	15.9	237.9	24.7	31.4	274	17.1	14.0	16.7
FY23E	55409.6	10.7	278.5	17.1	26.8	232	14.6	14.4	17.9

Source: Company, ICICI Direct Research

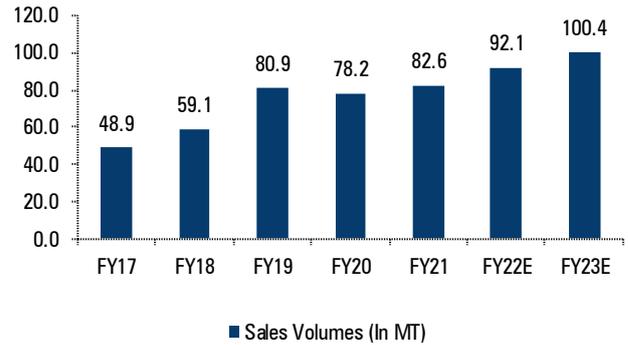
Financial story in charts

Exhibit 4: Sales volumes up 47.3% YoY on lower base



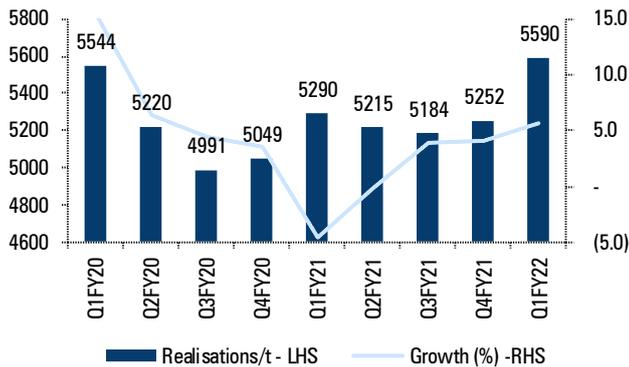
Source: Company, ICICI Direct Research

Exhibit 5: Volumes expected to cross ~100 MT by FY23E



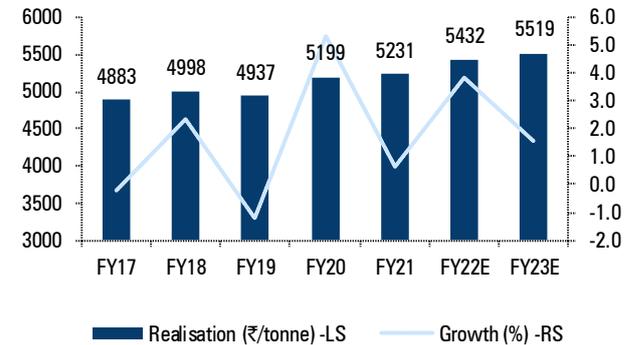
Source: Company, ICICI Direct Research

Exhibit 6: Realisations improve 5.7% YoY, 6.4% QoQ



Source: Company, ICICI Direct Research

Exhibit 7: Realisation growth to moderate with volume pick-up



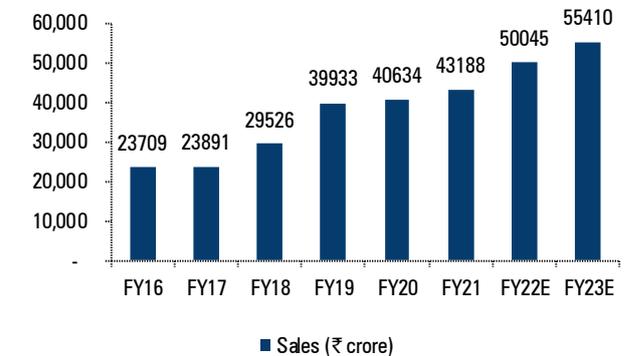
Source: Company, ICICI Direct Research

Exhibit 8: Domestic capacity to reach ~131 MT by FY23E

Zone (in mt)	Capacity	Capacity additions	Total
North	23.8	5.2	29.0
Central	23.3	4.2	27.5
East	16.1	10.1	26.2
West	27.7		27.7
South	20.5		20.5
Domestic Total	111.4	19.5	130.9
Overseas	5.4		5.4
Total	116.8		136.3

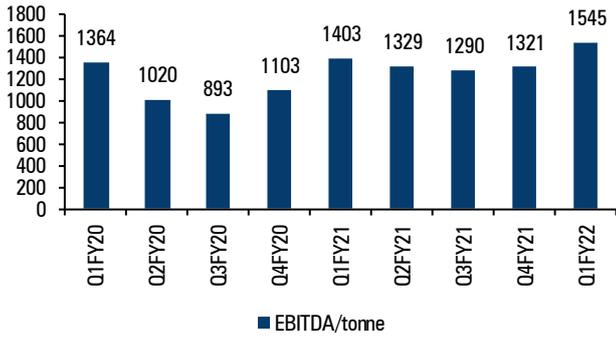
Source: Company, ICICI Direct Research

Exhibit 9: Standalone revenues to grow at 13.3% CAGR in FY21-23E



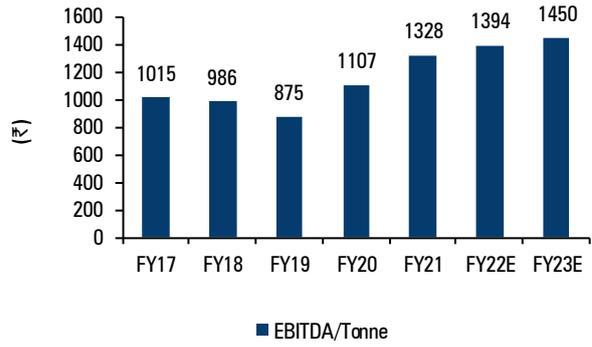
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t increases YoY led by better pricing environment



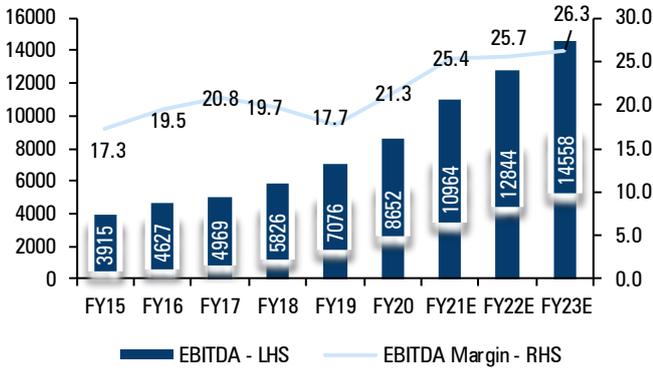
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t trajectory to remain healthy, going forward



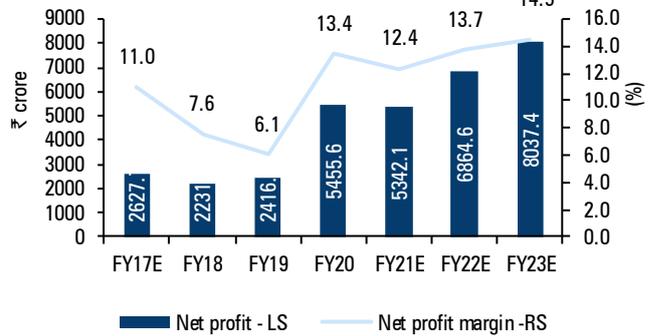
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA growth to trend



Source: Company, ICICI Direct Research

Exhibit 13: PAT margin to scale up to over 14% by FY23E led by healthy realisations, efficiency measures



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 14: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating income	40,634	43,188	50,045	55,410
Growth (%)	1.8	6.3	15.9	10.7
Raw material cost	6,907	7,539	8,452	9,589
Power & Fuel cost	7,703	7,552	9,673	10,844
Freight cost	9,570	9,940	10,785	11,446
Employees cost	2,336	2,182	2,308	2,447
Others	5,465	5,012	5,984	6,526
Total Operating Exp.	31,982	32,224	37,201	40,852
EBITDA	8,652	10,964	12,844	14,558
Growth (%)	22.3	26.7	17.1	13.3
Depreciation	2,455	2,434	2,568	2,997
Interest	1,704	1,259	1,114	712
Other Income	727	789	866	800
PBT	5,220	8,059	10,027	11,648
Total Tax	-236	2,553	3,163	3,611
PAT	5,456	5,506	6,865	8,037
Growth (%)	115.6	0.9	24.7	17.1
Adj. EPS (₹)	124	191	238	279

Source: Company, ICICI Direct Research

Exhibit 16: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	289	289	289	289
Reserve and Surplus	38,008	43,064	48,711	55,530
Total Shareholders funds	38,296	43,353	48,999	55,819
Total Debt	18,100	14,915	12,415	7,915
Deferred Tax Liability	4,077	5,219	5,219	5,219
Total Liabilities	60,473	63,487	66,633	68,952
Assets				
Gross Block	64,923	67,569	72,091	75,491
Less: Acc Depreciation	19,668	22,102	24,670	27,667
Net Block	45,255	45,467	47,421	47,824
Capital WIP	1,106	1,522	1,500	1,100
Total Fixed Assets	46,361	46,989	48,921	48,924
Investments	13,090	20,786	20,286	20,286
Inventory	3,834	3,722	3,956	4,545
Debtors	1,848	2,286	2,376	2,482
Loans and Advances	2,300	1,353	1,649	1,675
Other Current Assets	3,039	3,399	4,108	3,649
Cash	310	1,881	1,552	3,967
Total Current Assets	11,331	12,641	13,641	16,318
Creditors	3,250	6,334	6,005	6,139
Provisions	7,059	10,595	10,209	10,437
Total Current Liabilities	10,309	16,929	16,215	16,576
Net Current Assets	1,022	-4,288	-2,573	-257
Others Assets	0	0	0	0
Application of Funds	60,473	63,486	66,633	68,952

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	5,456	5,342	6,865	8,037
Add: Depreciation	2,455	2,434	2,568	2,997
(Inc)/dec in Current Assets	-435	261	-1,330	-262
Inc/(dec) in CL and Provisions	-815	6,620	-715	361
CF from operating activities	6,660	14,658	7,389	11,133
(Inc)/dec in Investments	-288	-920	0	0
(Inc)/dec in Fixed Assets	-1,100	-3,062	-4,500	-3,000
Others	-1,138	1,142	0	0
CF from investing activities	-2,526	-2,839	-4,500	-3,000
Issue/(Buy back) of Equity	14	0	0	0
Inc/(dec) in loan funds	-1,565	-3,185	-2,500	-4,500
Dividend paid & dividend tax	-452	-1,288	-1,218	-1,218
Inc/(dec) in Sec. premium	0	0	0	0
Others	16	1,002	0	0
CF from financing activities	-1,987	-3,471	-3,718	-5,718
Net Cash flow	-346	1,571	-330	2,415
Opening Cash	656	310	1,881	1,552
Closing Cash	310	1,881	1,552	3,967

Source: Company, ICICI Direct Research

Exhibit 17: Ratio sheet

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adj. EPS (₹)	123.8	190.8	237.9	278.5
Cash EPS	274.1	269.5	326.9	382.4
BV	1,327.1	1,502.3	1,698.0	1,934.3
DPS	13.0	37.0	35.0	35.0
Cash Per Share	10.7	65.2	53.8	137.5
Operating Ratios (%)				
EBITDA Margin	21.3	25.4	25.7	26.3
PBT / Total Operating income	12.8	18.3	20.0	21.0
PAT Margin	13.4	12.4	13.7	14.5
Inventory days	34.2	31.9	28.0	28.0
Debtor days	18.9	17.5	17.0	16.0
Creditor days	28.0	40.5	45.0	40.0
Return Ratios (%)				
RoE	9.3	12.7	14.0	14.4
RoCE	11.4	14.7	16.7	17.9
RoIC	11.6	16.0	18.1	20.2
Valuation Ratios (x)				
P/E	39.5	40.3	31.4	26.8
EV / EBITDA	26.3	20.2	17.1	14.6
EV / Net Sales	5.6	5.1	4.4	3.8
Market Cap / Sales	5.3	5.0	4.3	3.9
Price to Book Value	5.6	5.0	4.4	3.9
Solvency Ratios				
Debt/EBITDA	2.1	1.4	1.0	0.5
Debt / Equity	0.5	0.3	0.3	0.1
Current Ratio	1.1	0.7	0.8	1.0
Quick Ratio	1.1	0.6	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Cement)

Company	CMP (₹)	Rating	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
			FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
ACC*	2,287	BUY	73	85	125	17.6	16.5	10.5	167	139	134	17.4	14.5	20.6	11.9	12.6	16.0
Ambuja Cem*	399	BUY	7.7	9.0	10.9	17.4	15.9	12.6	173	186	166	12.2	17.6	19.1	14.7	20.3	21.7
UltraTech Cem	7,460	BUY	124	191	238	26.3	20.2	17.1	286	279	274	11.4	14.7	16.7	9.3	12.7	14.0
Shree Cement	28,100	BUY	435	641	706	26.4	24.2	21.5	286	265	261	13.8	18.2	18.5	12.1	15.2	14.6
Heidelberg Cem	266	BUY	11.8	11.0	14.6	10.4	11.1	8.6	139	123	117	22.3	20.9	27.2	20.4	20.2	23.7
JK Cement	3,142	HOLD	51.8	99.6	107.0	20.3	15.5	14.1	201	183	187	16.2	18.6	18.2	12.8	20.6	18.6
JK Lakshmi Cem	705	BUY	7.0	7.1	6.8	20.2	17.4	16.9	94	94	86	7.5	9.2	9.3	5.9	5.8	5.2
Star Cement	117	BUY	6.9	5.7	7.3	9.6	10.3	8.5	131	90	86	17.1	14.4	16.3	15.4	12.0	14.1
Ramco Cement	1,107	BUY	25.7	29.8	31.5	20.5	16.4	15.1	180	175	171	7.5	8.6	8.9	12.3	12.7	11.8
Sagar Cement	1,272	BUY	-1.9	12.9	5.8	24.2	18.6	19.2	89	94	77	5.4	8.1	6.4	-0.5	3.4	1.6

Source: Company, ICICI Direct Research, *ACC and Ambuja FY20=CY19, FY21E=CY20E, FY22E=CY21E

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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