

UltraTech Cement Ltd.

04 December 2020

Reuters: ULTC.BO; Bloomberg: UTCEM IN

Demand recovery prompts massive expansion plans

Ultratech Cement Ltd (UTCEM) has announced massive expansion plans to increase its capacity by 19.5mn mt by FY23. The long term stated goal of the company was to add 50mn mt capacity by 2030 and a large part of that plan is being front-loaded with this announcement. The recent recovery in demand in various regions, especially in East, Central and North India, coupled with capacity constraints in East during peak period has prompted the company to announce its highest ever capacity addition plan. The capacity expansion programme includes ongoing expansion of 6.7mn mt of cement capacity and new capex of 12.8mn mt of cement, accompanied by 11.4mn mt of clinker capacity and close to 57MW of waste heat recovery system (WHRS). Total capital outlay for this project is Rs65.3bn, including Rs10.5bn for the existing projects. This translates into capex cost of mere US\$45/mt, which is one of the lowest in the industry. Reason for the low capex/mt is that 70% of the expansion is brownfield in nature. The East region will get the highest share of capacity addition (52% of total) followed by the Central region (26%) as the management believes that these are the lowest per capita consumption regions in the country and hence growth potential is the highest there. We see this expansion as positive for the company as it will lead to increased market share and will help the company to maintain its leadership position. Historically, UTCEM has grown volume at higher-than-industry growth rate and we expect that momentum to sustain in the medium term. Moreover, the recent inorganic acquisitions have occurred at relatively expensive valuations. This brownfield capex will help it to balance capital costs and lead to higher return ratios. We maintain our positive stance on the company with a BUY rating and target price (TP) of Rs5,640 (unchanged).

Capex plan in numbers: Total of 19.5mn mt capacity addition by FY23, out of which the East region will see capacity addition of 10.1mn mt, the Central region 5.1mn mt, North 2.5mn mt and West 1.8mn mt. This translates into 18% of UTCEM's existing total capacity whereas for the East it translates into 62% of its existing capacity. It will take UTCEM's total capacity in India to 130.9mn mt from 111.4mn mt currently. As % of total India capacity, this expansion is 4% of total and for the East region as a whole UTCEM's capacity expansion is 10.4% of total regional capacity. As a result, UTCEM's capacity share is likely to increase by 2.2% from 22.6% currently to 24.9% in FY23. 85% of output from the expansion will be blended cement, which will improve cement-to-clinker ratio for the company.

Return ratios to inch up: UTCEM expects IRR/ROCE of ~15% for this expansion based on the back of lower capex costs. This expansion will also help it to reduce logistics costs as material which used to move from Maharashtra or South India to East will come down. UTCEM's ROCE for FY20 was close to 11.5% whereas higher ROCE from the expanded capacity is likely to move overall ROCE higher.

Despite capex, UTCEM will be debt free by FY23: The company expects to spend Rs25bn per year on total capex, including maintenance capex of existing plants. Given the higher level of current profitability, cash flows are expected to be superior (Rs110-120bn per year) and we expect the company to be debt free by FY23 despite the renewed capex plans.

Top pick in Large Cap cement space: We believe that the company's pan-India presence, continued capacity expansion programme, huge scope for further volume growth given lower utilisations, improving efficiency parameters and faster deleveraging make UTCEM stand out as a strong candidate to play the upcoming cement rally. Maintain Buy with TP of Rs5,640 (unchanged). Key risks include lower-than-expected demand and supply pressure from the peers.

Financial Snapshot

Y/E March (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenues	373,792	421,248	412,620	443,362	489,387
YoY (%)	20.7	12.7	(2.0)	7.5	10.4
EBITDA	67,881	92,836	99,781	101,962	113,273
EBITDA (%)	18.2	22.0	24.2	23.0	23.1
Adj. PAT	24,163	58,122	69,411	75,624	89,908
YoY (%)	8.6	140.5	19.4	9.0	18.9
FDEPS (Rs)	88.0	200.7	239.6	261.1	310.4
ROE (%)	8.8	17.2	16.4	15.4	15.8
EV/EBITDA	18.8	11.4	15.1	14.1	12.0
EV/mt (\$)	189.2	124.5	168.2	160.3	152.6
P/E (x)	44.4	15.4	20.4	18.7	15.8

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Cement

CMP: Rs4,895

Target Price: Rs5,640

Upside: 15%

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Key Data

Current Shares O/S (man)	288.6
Mkt Cap (Rsbn/US\$bn)	1,412.4/19.1
52 Wk H / L (Rs)	4,998/2,910
Daily Vol. (3M NSE Avg.)	657,446

Price Performance (%)

	1 M	6 M	1 Yr
UltraTech Cement	8.0	28.6	16.6
Nifty Index	10.3	31.0	9.1

Source: Bloomberg

Exhibit 1: Capex plan - Cement

Ongoing expansion		mn mt
Location	State	Capacity
Cuttak	Odisha	2.2
Dankuni	West Bengal	0.6
Patliputra	Bihar	0.6
Bara	Uttar Pradesh	2
Dalla	Uttar Pradesh	1.3
Sub-total	-	6.7
Proposed new expansion		
Pali	Rajasthan	1.9
Patliputra	Bihar	2.2
Dhar	Madhya Pradesh	4.2
Hirmi	Chhattisgarh	4.5
Sub-total	-	12.8
Total capacity to be added		19.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Capex plan - clinker

Capex plan – Clinker		Mn mt
Dalla super	Uttar Pradesh	2.3
Maihar	Madhya Pradesh	1
Pali	Rajasthan	2.7
Dhar	Madhya Pradesh	2.7
Hirmi	Chhatisgarh	2.7
Total Clinker		11.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Region wise capacity addition (mn mt)

Region	Addition	Current Capacity	Total capacity
East	10.1	16.2	26.3
Central	5.1	21.1	26.2
North	2.5	18	20.5
West	1.8	27.7	29.5
South	0	28.4	28.4
Total	19.5	111.4	130.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Post expansion capacity share (mn mt)

Region	Current capacity	Addition	Total post expansion	addition as % of total	current capacity share	post expansion capacity share	Capacity share gain
East	16.2	10.1	26.3	62%	16.7%	27.0%	10.4%
Central	21.1	5.1	26.2	24%	31.7%	34.6%	3.0%
North	18	2.5	20.5	14%	17.4%	19.5%	2.2%
West	27.7	1.8	29.5	6%	42.9%	40.5%	-2.4%
South	28.4	0	28.4	0%	17.7%	17.4%	-0.3%
Total	111.4	19.5	130.9	18%	22.6%	24.9%	2.2%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Capacity addition as industry capacity (mn mt)

Region	Total Industry Capacity	Capacity addition by UTCM	% of total
East	97.23	10.1	10.4%
Central	66.65	5.1	7.7%
North	103.52	2.5	2.4%
West	64.61	1.8	2.8%
South	160.21	0	0.0%
Total	492.22	19.5	4.0%

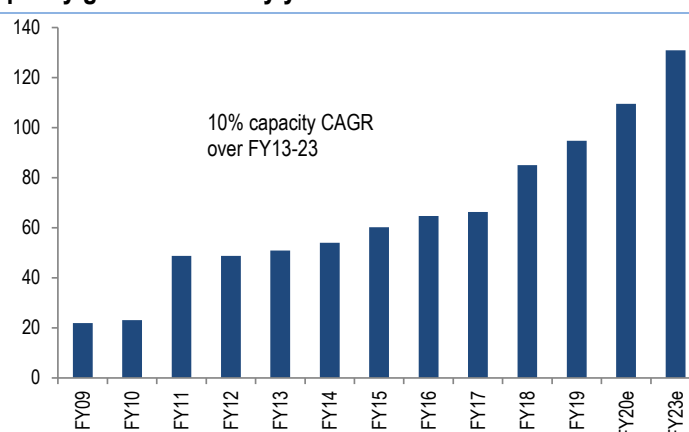
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Favourable demand outlook for east and central region

Macro Economic- Potential	North	Central	East*	West	South	India
Rural Population (FY 20E)	67%	75%	77%	53%	54%	67%
PCC (Kg) – FY 20LE	231	173	203	273	263	227
Housing Shortage (FY20E) (Mn) ^	10	8	9	7	12	50
Road Density (kms/ per lac people) #	294	244	307	469	401	358
Power Density (kWh/Capita)	1233	700	820	1758	1461	1181

* Excl. North-East

Source: Company presentation

Exhibit 7: UTCM capacity growth over they years


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Valuation summary

Particulars	(Rs)
Sep 22 EBITDA	1,07,618
Target multiple (x)	15.0
Enterprise value	16,14,263
Less: Net debt	(19,219)
Equity value	16,33,483
No of shares (mn)	289.6
Value per share (Rs)	5,640
CMP (Rs)	4,895
Upside / (downside) %	15%

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 9: Income statement

YE March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	373,792	421,248	412,620	443,362	489,387
Raw Material Consumed	65,030	62,988	65,387	72,635	80,754
Power & Fuel Cost	84,279	84,679	78,138	87,650	98,393
Employee Cost	20,588	25,094	23,443	24,579	25,782
Freight and Forwarding	88,467	97,254	94,415	101,796	113,174
Other expenses	47,547	58,398	51,455	54,740	58,012
Total Expenditure	305,911	328,413	312,838	341,400	376,114
Operating profit	67,881	92,836	99,781	101,962	113,273
Operating profit margin (%)	18.2%	22.0%	24.2%	23.0%	23.1%
Other Income	4,381	6,478	6,846	7,443	8,094
Interest	15,486	19,857	16,539	12,936	10,981
Depreciation	21,398	27,022	27,469	28,244	29,274
PBT	35,378	52,435	62,619	68,224	81,112
Exceptional items	5	5	5	5	5
PBT post exc items	35,384	52,440	62,624	68,229	81,117
Tax	11,221	(5,682)	(6,787)	(7,395)	(8,791)
Tax rate (%)	31.7%	-10.8%	-10.8%	-10.8%	-10.8%
PAT	24,163	58,122	69,411	75,624	89,908
EPS (Rs)	88.0	200.7	239.6	261.1	310.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

YE March	FY19	FY20	FY21E	FY22E	FY23E
Growth (%)					
Sales	20.7	12.7	(2.0)	7.5	10.4
Operating Profits	10.5	36.8	7.5	2.2	11.1
Net Profits	8.6	140.5	19.4	9.0	18.9
Leverage (x)					
Net Debt: Equity	0.71	0.42	0.19	0.03	(0.09)
Interest Cover(x)	4.38	4.68	6.03	7.88	10.32
Total Debt/EBITDA	3.28	2.30	1.66	1.39	1.06
Profitability (%)					
OPM	18.2	22.0	24.2	23.0	23.1
NPM	6.5	13.8	16.8	17.1	18.4
ROE	8.8	17.2	16.4	15.4	15.8
ROCE	11.7	13.9	14.0	14.2	14.9
Turnover ratios (x)					
GFAT	0.8	0.8	0.7	0.7	0.8
Debtors Turnover(x)	16	18	16	14	13
WC days	33	28	34	41	41
Valuation (x)					
P/E	44.4	15.4	20.4	18.7	15.8
P/B	3.8	2.3	3.1	2.7	2.3
EV/EBIDTA	18.8	11.4	15.1	14.1	12.0
EV/mt (\$)	189.2	124.5	168.2	160.3	152.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance Sheet

YE March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
Equity Capital	2,874	2,962	2,962	2,962	2,962
Reserves and Surplus	281,137	388,269	453,525	524,164	608,091
Net worth	284,011	391,230	456,487	527,126	611,052
Total Debt	222,755	213,526	165,992	141,992	119,992
Deferred tax liability	35,539	49,120	49,120	49,120	49,120
Other non-current liabilities	1,725	13,039	13,763	14,530	15,341
Trade Payables	28,456	35,014	30,832	33,934	38,185
Other Current Liabilities	72,872	91,442	92,277	94,047	95,958
Total Current Liabilities	128,571	166,308	152,926	153,798	155,959
Total liabilities	645,357	793,371	808,471	860,749	929,647
Net Block	432,887	507,299	496,925	481,680	479,406
CWIP	11,221	9,196	5,101	9,101	3,101
Investment	14,048	16,850	20,850	30,850	50,850
Other non-current assets	69,648	109,953	93,734	89,298	85,664
Inventories	35,851	41,483	45,219	49,802	56,313
Sundry Debtors	25,314	22,383	30,523	34,011	38,883
Cash and Bank	7,072	5,392	23,251	50,623	76,927
Other current assets	49,315	80,816	92,870	115,383	138,504
Total Current Assets	117,552	150,074	191,862	249,819	310,626
Total Assets	645,357	793,371	808,471	860,749	929,647

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash flow statement

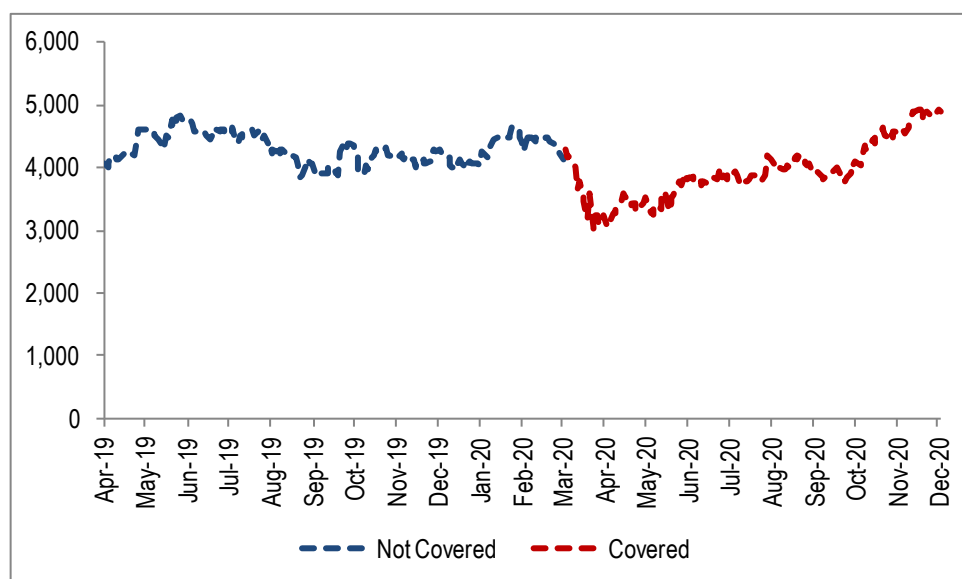
YE March, Rsmn	FY19	FY20	FY21E	FY22E	FY23E
Profit before tax	35,384	52,440	62,624	68,229	81,117
Add: Depreciation	21,398	27,022	27,469	28,244	29,274
Add: Interest Exp	15,486	19,857	16,539	12,936	10,981
CFO b4 WC	72,267	99,318	106,632	109,410	121,372
Net change in Working capital	(8,576)	18,200	(13,277)	(5,713)	(8,342)
Tax paid	(11,221)	5,682	6,787	7,395	8,791
Net cash from operations	52,470	123,200	100,142	111,091	121,822
Capital expenditure	(63,604)	(99,408)	(13,000)	(17,000)	(21,000)
Sale of investments	25,256	(30,074)	(18,000)	(30,000)	(40,000)
Net cash from investing	(67,984)	(169,786)	(14,781)	(42,564)	(57,366)
Issue of shares	0	140	-	-	-
Increase in debt	36,486	(9,229)	(47,534)	(24,000)	(22,000)
Dividends paid incl. tax	(3,462)	(3,462)	(4,154)	(4,985)	(5,982)
Interest paid	(15,486)	(19,857)	(16,539)	(12,936)	(10,981)
Net cash from financing	20,395	44,907	(67,503)	(41,154)	(38,152)
Net Cash	4,881	(1,680)	17,858	27,372	26,304
Opening Cash	2,191	7,072	5,392	23,251	50,623
Closing Cash	7,072	5,392	23,251	50,623	76,927

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
3 March 2020	BUY	4,227	5,679
13 April 2020	BUY	3,366	4,014
21 May 2020	BUY	3,530	4,259
17 July 2020	ACCUMULATE	3,815	4,144
24 July 2020	ACCUMULATE	3,837	4,144
28 July 2020	ACCUMULATE	4,131	4,144
16 October 2020	BUY	4,383	4,798
22 October 2020	BUY	4,632	5,640
4 December 2020	BUY	4,895	5,640

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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