

April 30, 2024

Strong volume, cost efficiencies to drive growth...

About the stock: Ultratech Cement Ltd, a part of Aditya Birla Group, is the India's largest manufacturer of grey cement. Company is also present in white cement and ready-mix concrete segments

- As of March 2024, company's total cement capacity stood at 146.2 mtpa (including 5.4 mtpa of overseas operations). North region constitutes 23% of total capacity followed by west (~21%), central & east (~19% each), south (~14%) and overseas (~4%)
- Company's revenue has increased by 25.9% CAGR over the period FY21-24 while EBITDA and PAT have grown at 5.9% and 14.8% CAGR respectively

Investment Rationale:

- Aggressive capacity expansion plan continues to drive volume growth:** Company's volume growth (~13% YoY in FY24) continues to beat street expectations and industry growth, mainly led by timely capacity additions, faster ramp-up of new capacities and continuous push towards gaining market share across regions. Company is in process of further expanding its total capacity by 21.5 mtpa during FY25-26E to reach 174.2 mtpa by FY26E (implies ~9% CAGR over FY24-26E). We believe that company will continue to grow its volumes better-than-industry average over the same period, led by continuous capacity additions, pick-up in demand and improvement in overall utilisation rate. We estimate company's volume growth at 10.0% CAGR over FY24-26E to 144 mtpa by FY26E (from 119.1 mtpa in FY24)
- EBITDA/ton to improve further going forward led by cost efficiencies:** Company's EBITDA/ton improved to ₹ 1089/ton in FY24 (vs ₹ 1005/ton in FY23), mainly led by decline in power & fuel cost, though higher raw material cost and other cost partially negate the impact of lower energy cost. Going ahead, we expect EBITDA/ton to improve further to ₹ 1255/ton by FY26E, primarily driven by focus on cost saving initiatives & positive operating leverage. Management also expects further cost savings of ₹ 200-300/ton over the next 3 years, led by increase in share of lower-cost renewable power (targets ~60% from ~24% at present), increase in share of alternative fuels to 15% (from 5-6% currently), optimising freight cost (on expanding network), further improvement in blending ratio and positive operating leverage

Rating and Target Price

- UltraTech is strongly placed to benefit from its aggressive capacity addition plans with focus on further reducing cost structure. We expect revenue to grow at ~10.8% CAGR over FY24-26E while EBITDA and PAT are expected to grow at 18.1% and 21.2% CAGR respectively over the same period
- Valuation at 16.1x EV/EBITDA on FY26E basis looks fair and factoring in most of the positives. We recommend Hold on UltraTech Cement with target price of ₹ 12430 per share (based on 20x FY26E EV/EBITDA)

Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
Revenues	44,726	52,599	63,240	70,908	16.6%	77,290	87,079	10.8%
EBITDA	11,568	11,514	10,620	12,969	3.9%	14,849	18,080	18.1%
EBITDA margin (%)	25.9	21.9	16.8	18.3		19.2	20.8	
Net Profit	5,319	7,174	5,064	7,005	9.6%	8,138	10,295	21.2%
EPS (Rs)	184.2	248.5	175.4	242.7		281.9	356.6	
P/E (x)	52.4	40.1	56.8	40.8		35.4	28.0	
EV/EBITDA (x)	25.3	25.4	27.4	22.5		19.7	16.1	
EV/ton (\$)	302	294	265	239		217	201	
RoCE (%)	15.5	15.3	12.8	14.8		15.5	17.8	
RoE (%)	12.4	14.2	9.3	11.7		12.2	13.9	

Source: Company, ICICI Direct Research



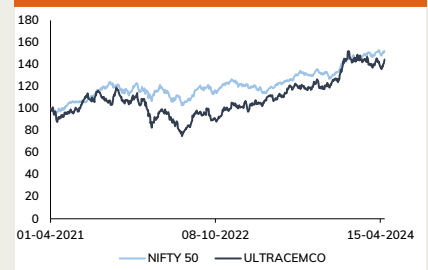
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,87,791
FY24 Gross Debt (₹ Crore)	10,298
FY24 Cash (₹ Crore)	6,268
EV (₹ Crore)	2,91,822
52 Week H/L (Rs)	10526 / 7434
Equity Capital	288.7
Face Value	10.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	60.0	60.0	60.0	60.0
FII	15.8	16.7	18.2	17.7
DII	16.0	15.0	13.7	14.1
Others	8.3	8.3	8.2	8.2

Price Chart



Key risks

- (i) Slowdown in demand (ii) Delay in capacity expansion (iii) Increase in commodity prices (iv) High competition

Research Analyst

Vijay Goel
vijay.goel@icicisecurities.com

Ankit Shah
ankit.shah1@icicisecurities.com

Q4FY24 and FY24 earnings call highlights:

- Sales volume grew by ~13% YoY in FY24, led by capacity expansions (over 20 mtpa capacity has been added in the last 14 months). Trade/non-trade stands at 65-35%
- The company is in process of expanding its capacity to 174.2 mtpa by FY26E and 188.9 mtpa by FY27E (from 146.2 mtpa at present). Company targets to cross 200 mtpa by FY28E
- Industry growth stood at ~9% YoY FY24 as per the management. The company expects demand to slightly moderate down in FY25. Demand will be mainly driven by private housing and other private capex
- Cement prices have increased marginally in April 2024 (mainly in South and East regions). For FY25E, cement prices are expected to remain stable or positive in FY25 as incremental demand is expected to outpace incremental supply (leading to gradual improvement in industry utilisation)
- Company expects cost/ton to further reduce by ₹ 200-300 per ton in next 3 years. This will be led by continuous cost-efficiency measures taking by the company
- On cost optimization front, company plans to increase in renewable power mix (from 24% currently to 60% by FY26E and 85% by FY30) through waste heat recovery and solar/wind, increase its renewable fuel consumption (from 5.6 % currently to 15%), freight cost optimisation (on expanded network of plants) & positive operative leverage
- Pet-coke consumption in total fuel mix has been declining due to lower availability. Moreover, the share of alternative fuels has been increased and will further increase in the coming period
- Fuel cost stood at ₹ 2.03 per 1000 kcal in Q4FY24 (vs ₹ 2.05 per 1000 kcal in Q3FY24)
- Company's aim to efficiently reduce its lead distance by 25 kms (from current lead distance of 400 kms)
- Acquisition of Kesoram is expected to conclude by March-25. Post amalgamation, company will reduce the cost of debt to 8.5% (from 11.5% currently)
- Capex for FY25E is estimated to be at ~₹ 9500 in FY25E. For FY26-27E also, capex is estimated to be in the similar range
- The company aims to be net cash by FY25E (excluding Kesoram) and have net debt of ₹ 1500-2000 crore (including Kesoram)

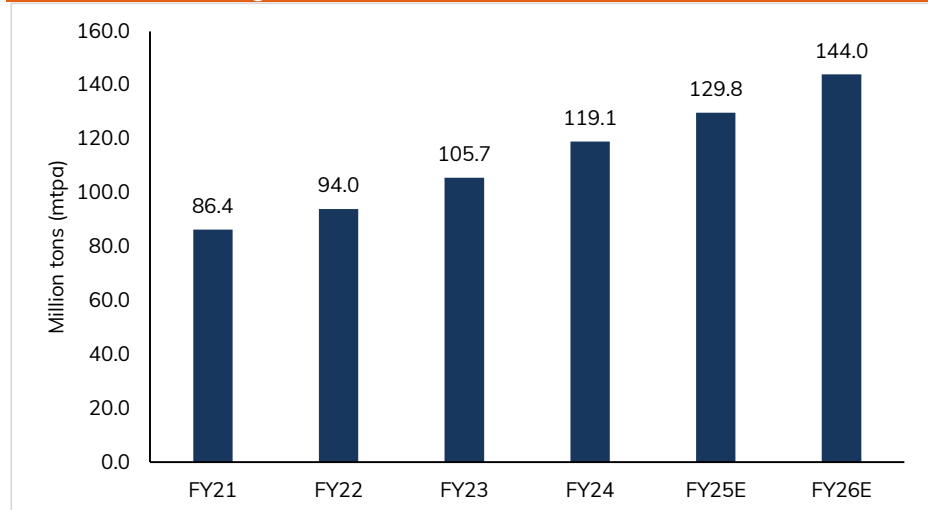
Exhibit 1: Cement capacity expansion plan schedule

Grey Cement Capacity (Mtpa)						
Zones	FY24	Added in FY25	Planned in FY25	FY26	FY27	Total
North	33.3			3.0	2.7	39.0
Central	28.4		4.5			32.9
East	27.6	2.7	1.6	2.5	6.6	41.0
West	31.1	1.1		3.0		35.2
South	20.5	2.7	3.6	3.3	5.4	35.5
All India	140.8	6.5	9.7	11.8	14.7	183.5
Overseas	5.4					5.4
Overall	146.2					188.9[^]

[^]Excluding Kesoram capacity of 10.75 MTPA awaiting regulatory approvals

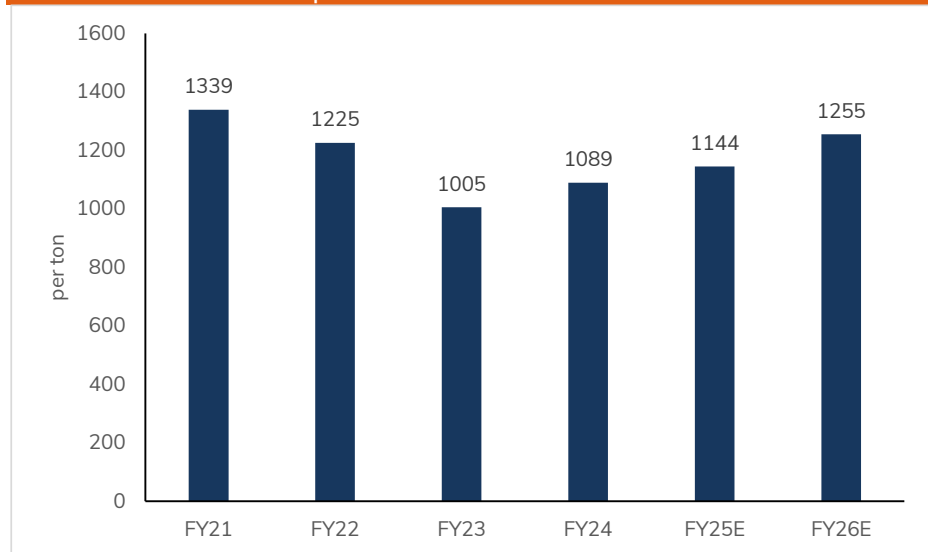
Source: Company, ICICI Direct Research

Exhibit 2: Volumes to grow at ~10% CAGR over FY24-FY26E



Source: Company, ICICI Direct Research

Exhibit 3: EBITDA/ton to improve further over FY25-26E



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Revenue	63,240.0	70,908.1	77,289.9	87,078.6
% Growth	20.2	12.1	9.0	12.7
Other income	503.1	617.0	678.6	746.5
Total Revenue	63,240.0	70,908.1	77,289.9	87,078.6
% Growth	20.2	12.1	9.0	12.7
Total Raw Material Costs	9,715.0	11,902.9	13,106.2	14,403.9
Employee Expenses	2,739.0	3,037.6	3,341.3	3,642.1
Other expenses	40,166.2	42,999.1	45,993.3	50,952.7
Total Operating Expenditure	52,620.1	57,939.6	62,440.9	68,998.6
Operating Profit (EBITDA)	10,619.9	12,968.6	14,849.0	18,080.0
% Growth	(7.8)	22.1	14.5	21.8
Interest	822.7	968.0	947.5	883.1
PBDT	10,300.2	12,617.5	14,580.2	17,943.4
Depreciation	2,888.0	3,145.3	3,632.6	4,092.7
PBT before Exceptional Items	7,412.2	9,472.2	10,947.6	13,850.8
Total Tax	2,342.9	2,418.3	2,813.5	3,559.6
PAT before MI	5,069.4	6,982.0	8,134.1	10,291.1
PAT	5,064.0	7,005.0	8,138.1	10,295.1
% Growth	(29.4)	38.3	16.2	26.5
EPS	175.4	242.7	281.9	356.6

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Profit after Tax	5,064.0	7,005.0	8,138.1	10,295.1
Depreciation	2,888.0	3,145.3	3,632.6	4,092.7
Interest	822.7	968.0	947.5	883.1
Cash Flow before WC changes	8,774.7	11,118.3	12,718.1	15,270.9
Changes in inventory	(1,016.3)	(1,717.9)	(563.9)	(1,126.4)
Changes in debtors	(795.4)	(411.1)	(380.4)	(590.0)
Changes in loans & Advances	(0.8)	(1.2)	(0.8)	(1.1)
Changes in other current assets	(207.0)	(130.0)	(370.5)	(293.7)
Net Increase in Current Assets	(1,589.8)	(3,133.7)	(1,348.2)	(2,157.0)
Changes in creditors	1,346.5	1,269.0	309.4	1,113.0
Changes in provisions	(43.6)	53.1	38.4	9.0
Net Inc in Current Liabilities	3,632.1	3,027.9	1,219.4	1,726.6
Net CF from Operating activities	10,817.0	11,012.6	12,589.4	14,840.4
Changes in deferred tax assets	-	-	-	-
(Purchase)/Sale of Fixed Assets	(6,223.4)	(9,488.8)	(9,500.0)	(9,500.0)
Net CF from Investing activities	(7,727.1)	(9,706.5)	(9,900.5)	(9,793.7)
Dividend and Dividend Tax	(1,092.7)	(2,020.8)	(2,165.1)	(2,742.5)
Net CF from Financing Activities	(2,308.9)	(1,663.0)	(2,855.7)	(5,025.6)
Net Cash flow	781.0	(356.9)	(166.9)	21.2
Opening Cash/Cash Equivalent	359.2	1,140.1	783.2	616.3
Closing Cash/ Cash Equivalent	1,140.1	783.2	616.3	637.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Equity Capital	288.7	288.7	288.7	288.7
Reserve and Surplus	54,026.4	59,938.8	66,168.5	73,721.1
Total Shareholders funds	54,315.1	60,227.5	66,457.2	74,009.8
Total Debt	9,900.8	10,298.4	10,298.4	8,898.4
Total Liabilities	72,490.1	78,886.6	85,116.4	91,269.0
Gross Block	62,249.4	69,040.5	80,823.3	90,323.3
Acc: Depreciation	15,769.1	18,914.4	22,547.1	26,639.7
Net Block	46,480.3	50,126.1	58,276.2	63,683.5
Capital WIP	4,034.9	6,782.8	4,500.0	4,500.0
Total Fixed Assets	62,429.0	68,772.5	74,639.9	80,047.2
Non Current Assets	8,215.0	8,871.1	9,271.7	9,565.3
Inventory	6,611.8	8,329.7	8,893.6	10,020.0
Debtors	3,867.0	4,278.2	4,658.6	5,248.6
Other Current Assets	1,818.3	1,948.2	2,318.7	2,612.4
Cash	1,140.1	783.2	616.3	637.5
Total Current Assets	14,896.9	17,673.6	18,854.9	21,033.1
Current Liabilities	7,209.3	8,478.3	8,787.8	9,900.7
Provisions	624.2	670.6	90.0	90.0
Total Current Liabilities	18,887.4	21,915.4	23,134.8	24,861.4
Net Current Assets	(3,990.6)	(4,241.8)	(4,279.9)	(3,828.3)
Total Assets	72,490.1	78,886.6	85,116.4	91,269.0

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
EPS	175.4	242.7	281.9	356.6
Cash per Share	241.7	217.1	211.3	212.1
BV	1,881.5	2,086.3	2,302.1	2,563.7
EBITDA Margin	16.8	18.3	19.2	20.8
PAT Margin	8.0	9.9	10.5	11.8
RoE	9.3	11.7	12.2	13.9
RoCE	12.8	14.8	15.5	17.8
RoIC	12.3	14.1	14.7	17.0
EV / EBITDA	27.4	22.5	19.7	16.1
P/E	56.8	40.8	35.4	28.0
EV/ton (\$)	265	239	217	201
EV / Net Sales	4.6	4.1	3.8	3.3
Sales / Equity	1.2	1.2	1.2	1.2
Market Cap / Sales	4.6	4.1	3.7	3.3
Price to Book Value	5.3	4.8	4.3	3.9
Asset turnover	1.0	1.0	1.0	1.1
Debtors Turnover Ratio	18.2	17.4	17.3	17.6
Creditors Turnover Ratio	9.7	9.0	9.0	9.3
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	0.9	0.9	1.0	1.0
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Vijay Goel, MBA (Finance), Ankit Shah, Chartered Accountant Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.