

BUY

TP: Rs 13,137 | ▲ 30%

ULTRATECH CEMENT

Cement

01 March 2025

Diversification Play; Sharp focus on Cement Stays, Retain BUY

- **UTCEM allocates Rs18bn (~2% of capital allocation) in the building material value chain by investing in wire and cable business**
- **Sharp focus on cement stays with target to achieve 209mnt domestic cement capacity by FY27 implying ~27% of the industry capacity**
- **EBITDA estimates retained for FY25E/FY26E/FY27E; expect new stream to contribute from FY28, Maintain BUY with unchanged TP of Rs13,137**

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UTCEM allocates Rs18bn to enter wires and cable business: UTCEM has received board approval to invest Rs18bn in the wires and cable business through its building product division. The investment is in line with the UTCEM's strategy to strengthen its position as a comprehensive building solutions provider. The investment will be in the next 2 years. UTCEM will expand its presence in the construction value chain through the foray in the cables and wires segment.

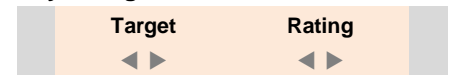
Entry in the new business stream through green field expansion: UTCEM intends to enter the W & C business with investment in the green field project (plant) at Jhagadia, near Bharuch in Gujarat with a total capacity of 3.5/4.0 mn kms. The key product categories will be Wires and various cable categories. The plant is expected to be operational by Q3FY27.

Expect to tap pan-India footprint; maintain industry margins: UTCEM plans to leverage the existing channel network to tap pan-India presence in the wire and cable network. The initial revenue focus will be 60:40 for the wire & cable segment. UTCEM indicated it will maintain the industry EBITDA margins (~10-11%) with a return ratio profile of upwards of 20% (~25%).

Cement focus continues to sharpen: UTCEM's current cement capacity (FY25-end) is expected to be 182.8mnt and it intends to expand its domestic reach to ~209mnt by FY27. The growth pace of the company is ahead of the industry growth in adding capacities and UTCEM will be ~27% of the total industry capacity in FY27.

Maintain earnings estimates, Retain BUY rating: We feel UTCEM's entry in the new business of W & C is to extend the building material value chain by offering one-stop solution. The initial investment of Rs18bn spread over next 2 years is a diversification of capital allocation but remains very small compared to its core cement exposure at ~2%. We retain our EBITDA estimates for FY25e/FY26e/FY27e as the new business stream will meaningfully contribute only from FY28e. Hence, we continue to assign 17x EV/EBITDA valuation to arrive at an unchanged TP of Rs 13,137. Maintain BUY.

Key changes



Ticker/Price	UTCEM IN/Rs 10,129
Market cap	US\$ 33.4bn
Free float	40%
3M ADV	US\$ 45.3mn
52wk high/low	Rs 12,145/Rs 9,250
Promoter/FPI/DII	60%/15%/17%

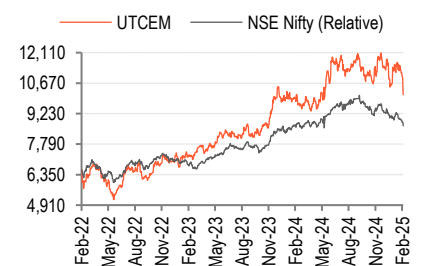
Source: NSE | Price as of 28 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	6,86,406	6,98,930	8,51,131
EBITDA (Rs mn)	1,35,678	1,28,720	1,82,604
Adj. net profit (Rs mn)	69,769	61,487	93,321
Adj. EPS (Rs)	241.7	213.0	323.3
Consensus EPS (Rs)	241.7	231.0	311.1
Adj. ROAE (%)	12.4	10.0	13.7
Adj. P/E (x)	41.9	47.5	31.3
EV/EBITDA (x)	21.3	22.4	15.6
Adj. EPS growth (%)	41.9	(11.9)	51.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Key takeaways from the Conference call held on 28th February 2025 to update on the new investment

Ultratech Focus on Cement continues

- UTCEM capacity is expected to be 182 mt by FY25 end and 209 mt by FY27.

Commentary on Wires and Cables Business

- UTCEM to foray into Cables and Wires business with a capex of Rs 18bn capex over FY25 and FY26 at Jhagadia, in Bharuch district in Gujarat. It is expected to be commissioned by December 2026 with a capacity of 3.5-4.0 mn kms.
- Total wires market grew at a CAGR 17.3% from FY19-FY24 to Rs 267 bn and the total cables market grew at a CAGR 12.2% from FY19-FY24 to Rs 710 bn. UTCEM expects the entire segment to grow at 13% over the next 5 years.
- Cables and Wires are non-discretionary spendings and UTCEM is likely to leverage existing relation with contractors and UBS Network.
- Increasing usage of wires due to higher consumption of white goods, consumer electronics etc provides healthy growth opportunities. Strong infrastructure growth such as metros, airports, railways provide impetus to infra-related demand. Newer areas such as renewable energy, EV charging infrastructure only assures future growth.
- UTCEM management indicated it will achieve an EBITDA margin similar to the industry and expects 25% ROCE.
- UTCEM has no plans of future capex as it will take 2031 to reach full capacity utilization of Jhagadia, Gujarat plant.
- The management indicated that the revenue target split will be 60% contributed by Wires and 40% Cables.
- There would be a new team in place containing both Specialist for manufacturing and marketing teams as the expertise and skill set required will be distinctive. However, general functions like Finance, Accounts and administration will continue from the existing man-power.
- Management expects to have minimal working capital/negative working capital.
- Product-design is completed, the engineering work has taken off, as mentioned above new team wherever required are in the process to be set up. The location is in close proximity of the copper source which is the key raw material source.

Valuation methodology

In our view, UTCEM's entry in the cable & wire business is a step towards providing one-stop building material solution from Cement, Putty, Paints and now into cable and wire business. The investment in the business is in-line or lower than the industry average as the capex (Rs9bn/year) is nearly half of the investment by the market leader. UTCEM management indicated no further investment till the asset investment is fully utilized till 2031 and further stressed no investment in any other diversified business.

There are limited entry barriers in the W & C business and UTCEM has an advantage of the backward integration with the readymade Aluminum and Copper business which is the key raw material required in the business. However, UTCEM will require to build the brand and the network in the B2B and B2C business which can be achieved by the company by expanding its existing footprints in the building division business.

UTCEM with its investment of Rs18bn will gain a market share of less than 5% (based on industry leader asset turnover of 4x). The size of the industry, export potential, shift of unorganised market to the organised market gives enough headroom to gain this market share. The return ratio profile of the C & W business is largely healthy (16-18%) though UTCEM has set an aggressive target of ~25%.

UTCEM will have to leverage its strong brand and network in the existing business to gain sizeable market share in a relatively lower time. The first full-fledged contribution is expected by FY28 (Q4FY27 at the earliest).

We have revised our PAT and EPS downwards by 5% and 6% for FY26e/FY27e to factor in additional depreciation impact (from the cement business). However, we retain our EBITDA estimates for FY25e/FY26e/FY27e as the new business stream will meaningfully contribute only from FY28e. Further, the capital allocation is at ~2% of the total business (focus on Cement continues) leaving no immediate impact on the current valuations (methodology). Hence, we continue to assign 17x EV/EBITDA valuation to arrive at an unchanged TP of Rs 13,137. Maintain BUY.

Fig 1 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	6,98,930	8,51,131	9,69,109	6,98,930	8,51,131	9,69,109	0.0	0.0	0.0
EBITDA	1,28,720	1,82,604	2,24,974	1,28,720	1,82,604	2,24,974	0.0	0.0	0.0
Adj PAT	61,487	93,321	1,23,852	61,487	98,353	1,32,332	0.0	(5.1)	(6.4)
Adj EPS (Rs)	213.0	323.3	429.1	213.0	340.7	458.5	0.0	(5.1)	(6.4)

Source: BOBCAPS Research

Fig 2 – Key assumptions

Parameter	FY24	FY25E	FY26E	FY27E
Volumes (mt)	107.7	118.9	143.9	161.3
Realisations (Rs/t)	5,304	5,145	5,278	5,410
Operating costs (Rs/t)	5,201	4,883	4,726	4,692
EBITDA/t (Rs/t)	1,163	988	1,183	1,311

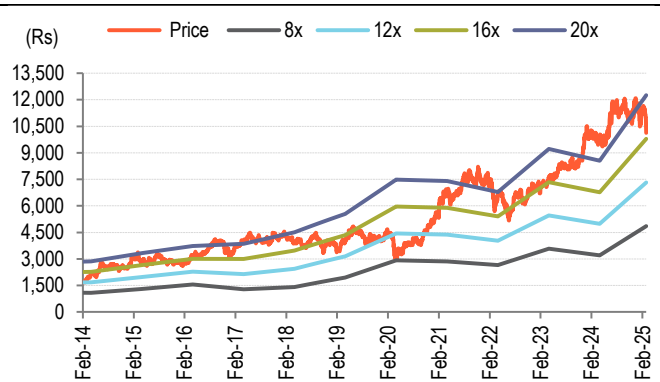
Source: Company, BOBCAPS Research

Fig 3 – Valuation summary

Business (Rs mn)	FY27E
Target EV/EBITDA (x)	17.0
EBITDA	2,24,974
Target EV	39,24,451
Total EV	39,24,451
Net debt	(75,440)
Target market capitalisation	39,99,892
Target price (Rs/sh)	13,137
Weighted average shares (mn)	288.7

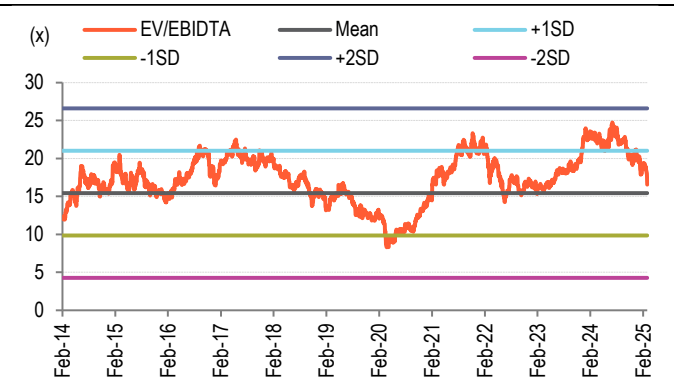
Source: BOBCAPS Research Note: Valuations based on 1-year forward earnings (December 2027)

Fig 4 – EV/EBITDA band: Valuations to stay elevated for the largest cement company and top brand



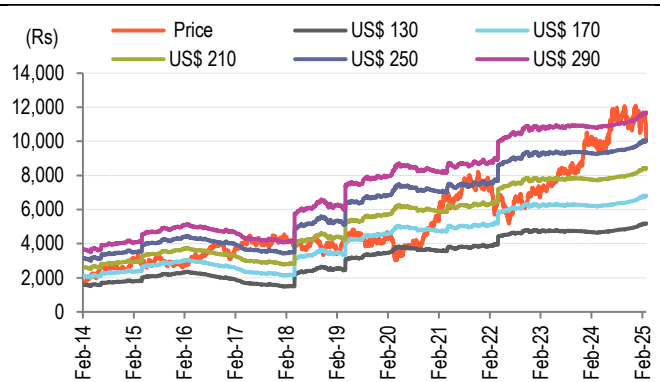
Source: Company, Bloomberg, BOBCAPS Research

Fig 5 – EV/EBITDA 1Y fwd: Not withstanding current moderation, UTCEM poised to command higher premium



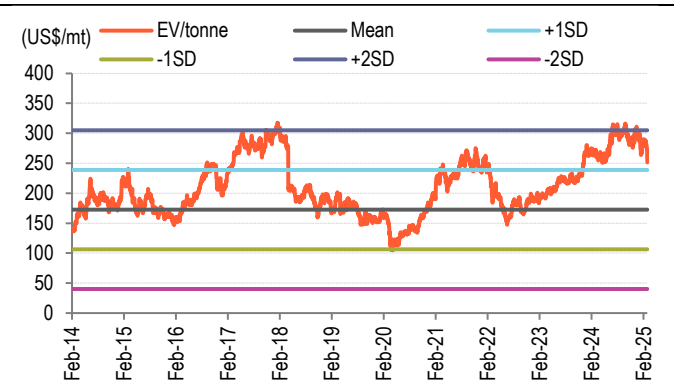
Source: Company, Bloomberg, BOBCAPS Research

Fig 6 – EV/tonne: Replacement cost at valuations for industry leader



Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – EV/tonne 1Y fwd: Valuations moderate leaves headroom for improvement



Source: Company, Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- Increasing competitive intensity and capacity addition may have a negative impact on cement sector pricing and could be detrimental for the industry and UTCEM.
- Delays in the implementation of capex plans could hamper growth.
- Energy cost spikes due to global uncertainties could dampen profitability.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	6,04,626	6,86,406	6,98,930	8,51,131	9,69,109
EBITDA	99,312	1,35,678	1,28,720	1,82,604	2,24,974
Depreciation	(26,192)	(30,274)	(34,815)	(43,519)	(50,047)
EBIT	80,014	1,02,548	1,03,342	1,50,039	1,87,297
Net interest inc./(exp.)	(7,550)	(8,668)	(15,903)	(15,612)	(9,563)
Other inc./(exp.)	6,894	(2,855)	9,438	10,954	12,370
Exceptional items	0	(720)	0	0	0
EBT	72,464	93,160	87,439	1,34,427	1,77,734
Income taxes	(23,295)	(24,111)	(25,952)	(41,106)	(53,881)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	49,169	69,049	61,487	93,321	1,23,852
Adjustments	0	(720)	0	0	0
Adjusted net profit	49,169	69,769	61,487	93,321	1,23,852

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	1,13,015	1,26,815	1,30,002	1,48,322	1,65,018
Other current liabilities	68,224	94,541	76,240	78,320	80,400
Provisions	7,779	8,878	9,393	9,946	10,542
Debt funds	1,01,440	80,873	1,62,906	1,03,957	73,113
Other liabilities	54,758	64,250	65,500	66,950	68,400
Equity capital	2,887	2,887	2,887	2,887	2,887
Reserves & surplus	5,26,482	5,88,065	6,38,746	7,19,909	8,31,603
Shareholders' fund	5,29,369	5,90,952	6,41,632	7,22,795	8,34,490
Total liab. and equities	8,74,584	9,66,309	10,85,673	11,30,290	12,31,963
Cash and cash eq.	72,802	28,680	57,703	88,360	1,54,208
Accounts receivables	32,422	34,965	37,518	48,020	57,331
Inventories	60,842	80,358	82,303	1,02,558	1,19,428
Other current assets	1,03,368	83,962	1,07,117	1,08,188	1,09,270
Investments	72,602	71,397	71,397	71,397	71,397
Net fixed assets	4,69,216	4,55,902	6,12,874	6,74,775	6,70,024
CWIP	38,072	1,85,035	90,000	10,000	23,000
Intangible assets	25,260	26,010	26,760	26,991	27,304
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	8,74,584	9,66,309	10,85,673	11,30,290	12,31,963

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	99,263	1,47,378	55,300	1,27,416	1,67,458
Capital expenditures	(55,845)	(1,64,673)	(97,503)	(25,651)	(58,610)
Change in investments	(17,905)	42,860	(26,000)	(30,000)	(30,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(73,750)	(1,21,813)	(1,23,503)	(55,651)	(88,610)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(5,434)	(20,567)	82,033	(58,950)	(30,843)
Interest expenses	8	9	10	10	10
Dividends paid	(10,927)	(10,807)	(10,807)	(12,158)	(12,158)
Other financing cash flows	(1,579)	3,342	0	0	0
Cash flow from financing	(17,940)	(28,032)	71,226	(71,108)	(43,001)
Chg in cash & cash eq.	7,573	(2,466)	3,023	657	35,847
Closing cash & cash eq.	72,803	28,681	57,703	88,360	1,54,208

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	170.3	239.2	213.0	323.3	429.1
Adjusted EPS	170.3	241.7	213.0	323.3	429.1
Dividend per share	37.9	32.0	32.0	36.0	36.0
Book value per share	1,833.9	2,047.3	2,222.9	2,504.1	2,891.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.8	4.2	4.1	3.3	3.0
EV/EBITDA	29.0	21.3	22.4	15.6	12.7
Adjusted P/E	59.5	41.9	47.5	31.3	23.6
P/BV	5.5	4.9	4.6	4.0	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	67.9	74.1	70.3	69.4	69.7
Interest burden (PBT/EBIT)	90.6	91.5	84.6	89.6	94.9
EBIT margin (EBIT/Revenue)	13.2	14.9	14.8	17.6	19.3
Asset turnover (Rev./Avg TA)	71.9	74.6	68.1	76.8	82.0
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.7	1.6	1.5
Adjusted ROAE	9.6	12.4	10.0	13.7	15.9

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	21.6	13.5	1.8	21.8	13.9
EBITDA	(9.2)	36.6	(5.1)	41.9	23.2
Adjusted EPS	(24.7)	41.9	(11.9)	51.8	32.7
Profitability & Return ratios (%)					
EBITDA margin	16.2	19.5	18.1	21.2	22.9
EBIT margin	13.2	14.9	14.8	17.6	19.3
Adjusted profit margin	8.1	10.2	8.8	11.0	12.8
Adjusted ROAE	9.6	12.4	10.0	13.7	15.9
ROCE	12.0	14.4	12.9	17.0	20.0
Working capital days (days)					
Receivables	20	19	20	21	22
Inventory	37	43	43	44	45
Payables	80	83	82	80	80
Ratios (x)					
Gross asset turnover	1.0	1.1	0.8	0.9	1.0
Current ratio	1.4	1.0	1.3	1.5	1.7
Net interest coverage ratio	10.6	11.8	6.5	9.6	19.6
Adjusted debt/equity	0.2	0.1	0.3	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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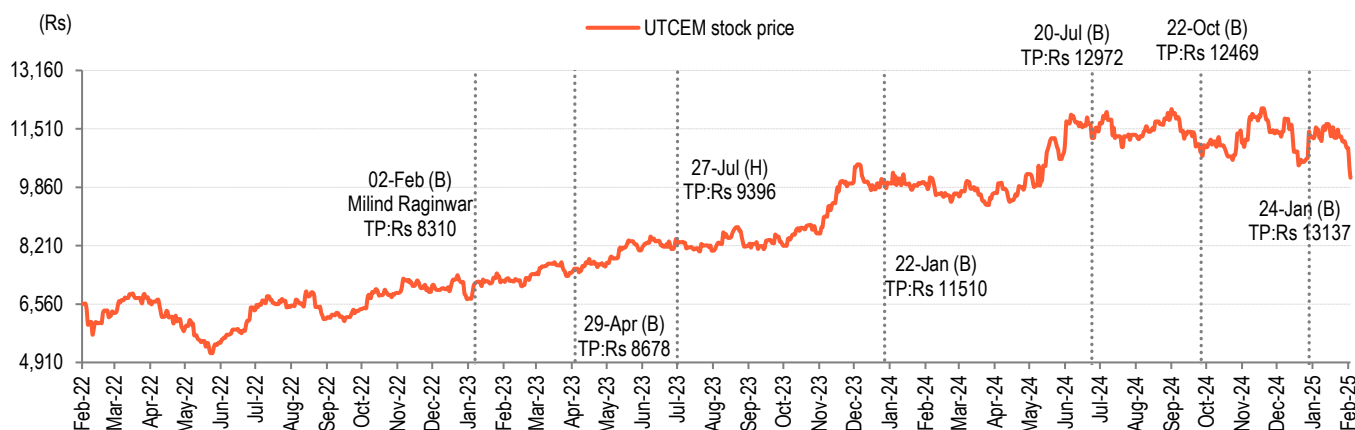
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ULTRATECH CEMENT (UTCEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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