

UltraTech Cement

HOLD

Outlook positive

Summary

Ultratech Cement (UTCEM) Q3FY22 EBITDA was lower than our/consensus estimate by 17%/11%. Weak result is led by weak volume (down 3% YoY) and cost inflation as EBITDA/t was lower by Rs210/t QoQ at Rs1041 in Q3FY22. This has led us to cut EBITDA for FY22E / 23E by 11% / 3% (exhibit 10). But despite the cut in FY22E est., we expect EBITDA/t to improve QoQ in Q4FY22 by Rs180/t. This is led by price hike and uptick in volume witnessed in Jan-22, as UTCEM plant operating at utilisation of 85% vs average of 75% for Q3FY22. We have maintained FY24E estimate and TP of Rs7663 (valuing at 13x FY24E EV/EBITDA). From valuation perspective we are valuing at its +1STD to arrive at TP. But given negligible upside we have HOLD rating. Capex outlook in Budget, sustenance of demand and Price hike is the key catalyst for stock performance.

Key Highlights and Investment Rationale

- **Q3FY22 snapshot:** UTCEM Q3FY22 revenue increased by 6% YoY to Rs130bn, with volume declining by 3% YoY and ASP increasing by 9% YoY. EBITDA at Rs24bn, down 22% YoY is led by cost inflation. EBITDA margin was lower at 19% vs. 25% YoY and PAT was up 8% YoY at Rs17bn (led by tax write back).
- **Demand trend:** In Q3FY22, barring north all other region witnessed demand weakness. Trade vol. was weak versus non trade but Demand has improved in Jan-22 with onset of the peak season and rising construction activities.
- **Capex plan intact:** Post commissioning 3.2mtpa capacity in 9MFY22, UTCEM has re-iterated its plan to commission remaining 16mtpa in FY23E. It sees no delay from covid related disruption. And thus FY23E to witness its installed capacity to increase by 13% YoY to reach 136mtpa. Post the commissioning its capacity market share to increase by ~200bps to 24% at an all India level.

TP **Rs7,663**CMP **Rs7,868**

Potential upside/downside -3%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	7.3	6.3	44.4
Rel to Sensex	(0.3)	6.3	19.4

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	201.4	262.3	339.7
Consensus	241.5	291.0	342.0
% difference	(16.6)	(9.9)	(0.7)

Key Stock Data

Bloomberg/Reuters	UTCEM IN/ULTC.BO
Sector	Cement
Shares o/s (mn)	289
Market cap. (Rs mn)	2,271,192
3-m daily avg Trd value (Rs mn)	178.0
52-week high / low	Rs8,267 / 5,262
Sensex / Nifty	61,309 / 18,308

Shareholding Pattern (%)

Promoters	60.0
FII	15.7
DII	15.2
Public	9.1

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	421,248	447,258	519,444	601,208	680,370
Change (yoy, %)	13	6	16	16	13
EBITDA	92,836	115,679	117,006	140,635	169,597
Change (yoy, %)	37	25	1	20	21
EBITDA Margin(%)	22.0	25.9	22.5	23.4	24.9
Adj.PAT	58,161	55,788	58,129	75,705	98,061
EPS (Rs)	201.5	193.3	201.4	262.3	339.7
Change (yoy, %)	127	(4)	4	30	30
PE(x)	39	41	39	30	23
Dividend Yield (%)	0	0	1	1	1
EV/EBITDA (x)	26.8	21.1	20.8	17.0	13.6
RoE (%)	17	13	13	15	17
RoCE (%)	11	13	13	16	19

Source: IDBI Capital Research

Conference call highlights

- Factors such as construction ban in NCR, Labour unavailability, Sand Shortages in the Eastern Side, has led to reduced demand in Nov-21. But Dec-21 and Jan-22 has seen strong demand growth.
- In addition, urban infra, which was impacted before covid, has revived. UTCEM expects there will be an increase in the demand from strong infra pipeline in the areas of road, rail, and metro. UTCEM expects to general elections scheduled over the FY23/FY24 to aid for the demand.
- Price hike taken in Oct-21 was rolled back in Nov-21, and thereby prices on a QoQ basis were flat in Q3FY22 at Rs350/bag for the company. But in Jan-22 Price hikes have been taken in East, Maharashtra, and some regions in South by the industry.
- Cost inflation to be there in Q4FY22 but logistics cost would reduce given cut in taxes. Company has lowered consumption of pet coke to 25% in Q3FY22.
- UTCEM has commissioned 1.2mt brownfield over the last quarter in the East and 2mt grinding unit in the current quarter. Remaining 16mtpa of 19mtpa planned addition will get commission in FY23E.
- For 9MFY22, UTCEM did capex of Rs40bn and planning to spend around Rs50bn/Rs40bn in FY22E/23E.
- UTCEM board has approved expansion of white cement capacity which will be done in phased manner from current 6.5L tons to 12.5L tons. In addition UTCEM is expanding putty division from 4.5L tons to 8.5L tons which is expected to complete by FY23E. White cement will see commissioning in FY26E.
- Signed definitive agreement to sell off the business in Europe and expected to close the transaction in the current quarter for Euro90mn.
- Repaid loans amounting to Rs35bn in the current quarter, with Net Debt / EBITDA at 0.49x.
- Construction chemicals (sealants, water proofing agents and others) contribute Rs5bn to UTCEM annually and company plans to increase it to Rs25-30bn over the next 2-3 years. It expects to earn 15-18% operating margins on it.
- Green energy (WHRS at 156MW and Solar at 221MW) contribute 16% of energy consumption and company has plans to increase it to 34% by FY24E.
- Industry capacity addition is expected at 20mton / year over FY22-24. In FY23E bulk of industry capacity addition is expected from Ultratech.

Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY ch (%)
Revenue	129,849	120,168	8	122,541	6
Cost of Sales ex Depreciation	112,398	99,795	13	98,338	14
EBITDA	24,194	27,147	-11	30,943	-22
<i>Margin %</i>	19	23		25	
Depreciation	6,742	6,774	0	6,739	0
Other Income	705	1,401	-50	2,679	-74
Interest Expensed	1,823	2,300	-21	3,563	-49
Pretax Profit	16,334	19,474	-16	23,320	-30
Tax	-760	6,371	-112	7,474	-110
Net profit	17,101	13,135	30	15,843	8

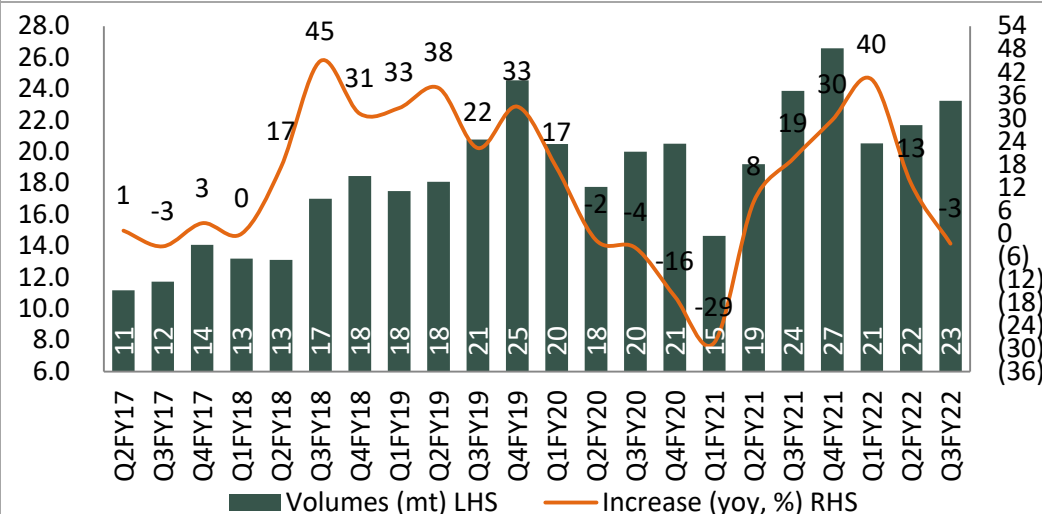
Source: Company

Exhibit 2: Operational matrix

Particulars	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY ch (%)
Volume mt	23	22	7	24	-3
Selling price Rs/t	5,587	5,538	1	5,132	9
Raw material cost Rs/t	887	797	11	751	18
Employee cost Rs/t	277	313	-12	256	8
Power & Fuel Cost Rs/t	1,386	1,161	19	1,006	38
Freight cost Rs/t	1,250	1,232	1	1,193	5
Other expenses Rs/t	747	783	-5	630	19
EBITDA Rs/t	1,041	1,251	-17	1,296	-20

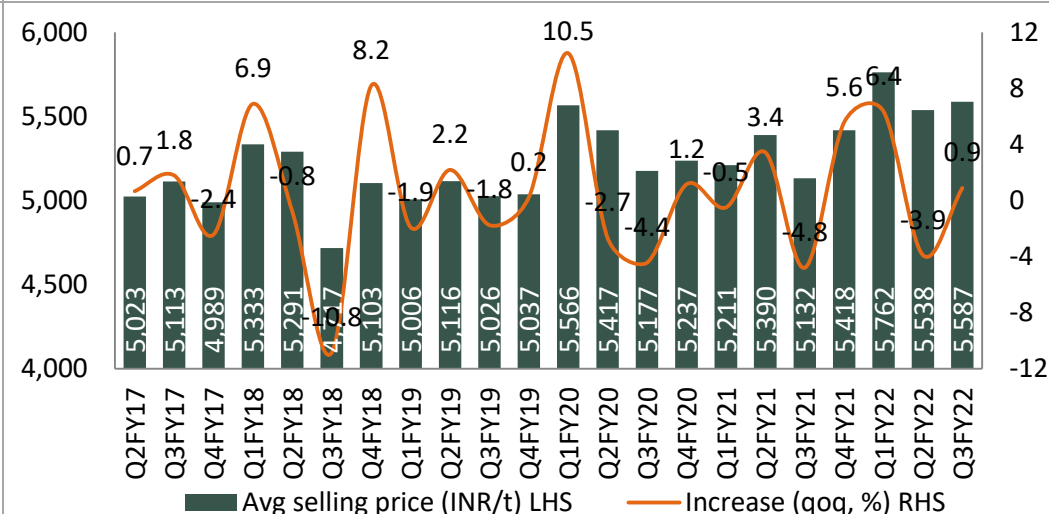
Source: Company

Exhibit 3: Q3FY22 volume down by -3% YoY



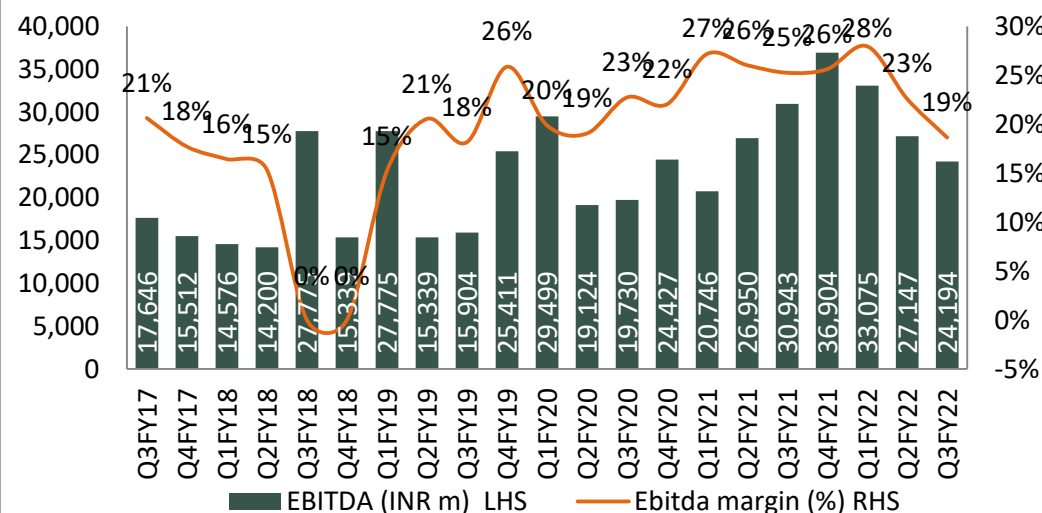
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Exhibit 4: Q3FY22 cement price increased by 0.8% QoQ



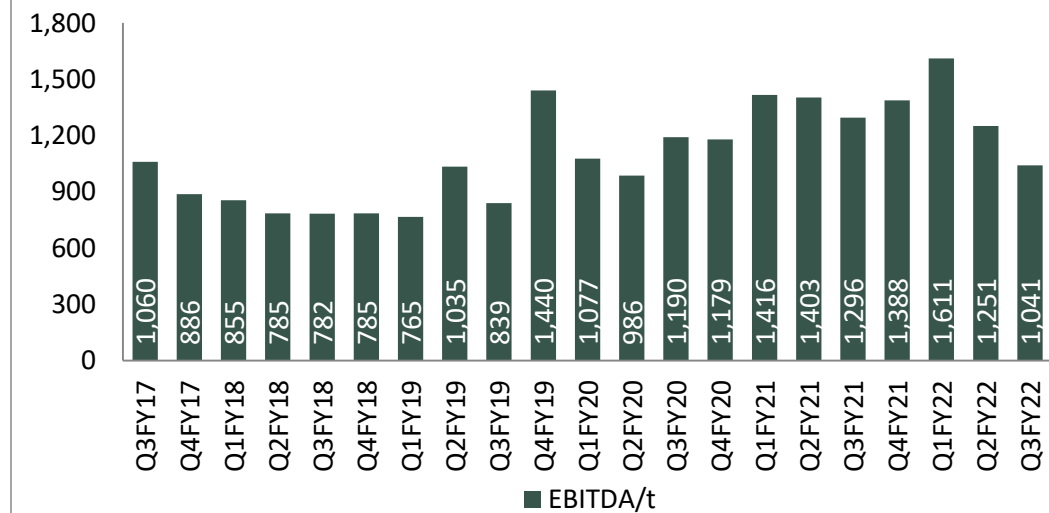
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Exhibit 5: Q3FY22 EBITDA margins decreased to 19% vs 23% QoQ



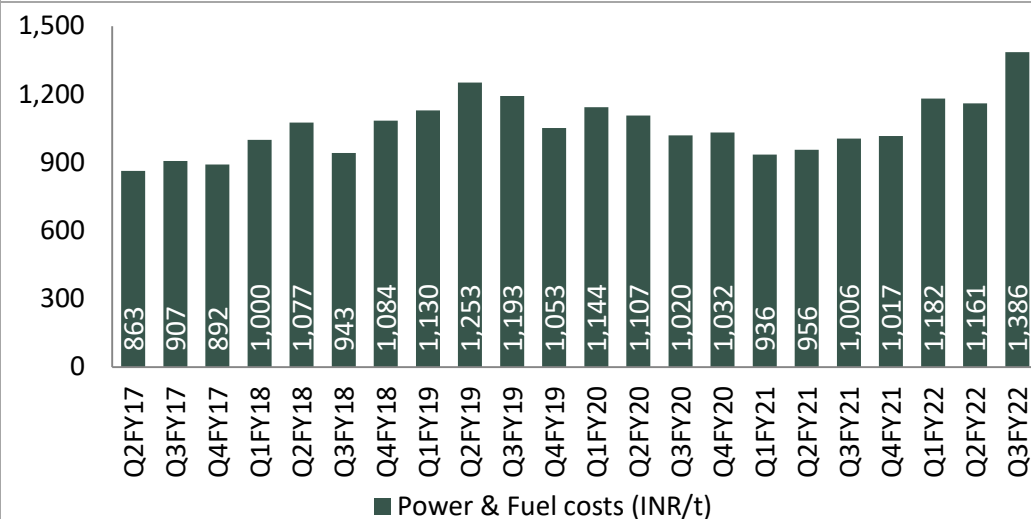
Source : Company

Exhibit 6: Q3FY22 EBITDA /t at Rs1041 (Rs/t)



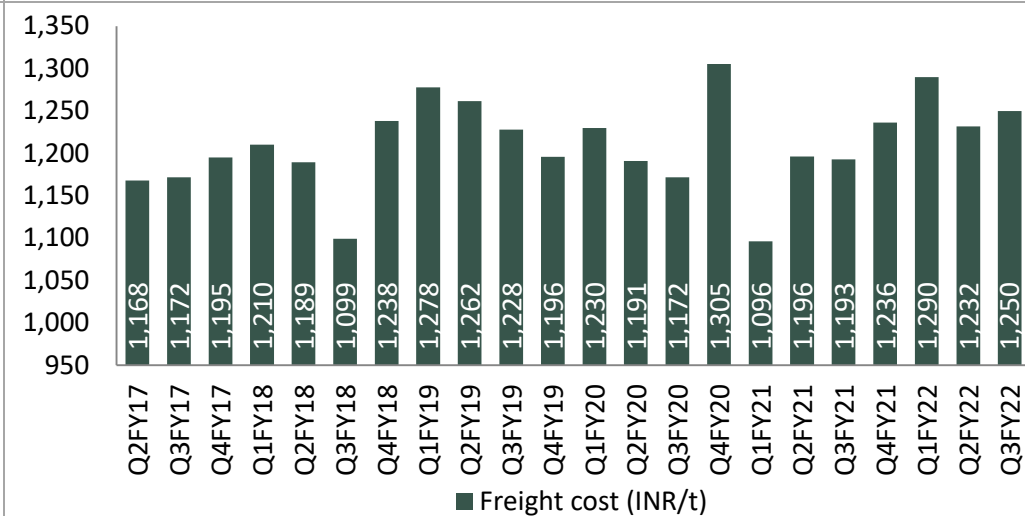
Source : Company

Exhibit 7: Q3FY22 fuel cost up QoQ (Rs/t)



Source : Company

Exhibit 8: Q3FY22 freight cost marginally up QoQ (Rs/t)



Source : Company

Exhibit 9: Valuation Summary

	FY24E
EBITDA Rs mn	169,597
EV/EBIDTA multiple x	13
EV Rs mn	2,204,756
Debt Rs mn	129,835
Cash Rs mn	137,013
Net Debt Rs mn	(7,178)
Mcap Rs mn	2,211,935
Shares m	288.7
TP Rs/sh	7,663

Source: IDBI Capital Research

Exhibit 10: Change in estimate

	Unit	New		Old		Change	
		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Capacity	mt	123	136	123	136	0.0%	0.0%
Sales volume	mt	92	105	94	107	-1.6%	-1.8%
Utilization	%	75%	77%	76%	78%		
Revenue	INR bn	519	601	513	594	1.3%	1.1%
ASP	INR /t	5,633	5,746	5,469	5,578	3.0%	3.0%
Opex cost	INR /t	4,364	4,402	4,059	4,159	7.5%	5.8%
EBITDA	INR bn	117	141	132	146	-11.5%	-3.4%
EBITDA	INR/t	1,269	1,344	1,410	1,420	-10.0%	-5.3%
Depreciation	INR bn	27	28	27	28	0.0%	0.0%
Interest expense	INR bn	13	11	13	11	0.0%	0.0%
Net Profit	INR bn	58	76	68	83	-14.9%	-8.6%

Source: IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	373,792	421,248	447,258	519,444	601,208	680,370
<i>Change (yoy, %)</i>	19	13	6	16	16	13
Operating expenses	(305,911)	(328,413)	(331,579)	(402,439)	(460,573)	(510,773)
EBITDA	67,881	92,836	115,679	117,006	140,635	169,597
<i>Change (yoy, %)</i>	10	37	25	1	20	21
<i>Margin (%)</i>		22.0	25.9	22.5	23.4	24.9
Depreciation	(21,398)	(27,022)	(27,002)	(26,898)	(27,409)	(27,920)
EBIT	46,483	65,814	88,677	90,108	113,226	141,677
Interest paid	(15,486)	(19,857)	(14,857)	(13,038)	(10,808)	(6,948)
Other income	4,381	6,478	7,342	7,592	7,842	8,092
Pre-tax profit	35,378	52,435	78,555	84,661	110,260	142,821
Tax	(11,063)	5,682	(25,387)	(26,474)	(34,479)	(44,662)
<i>Effective tax rate (%)</i>	31.3	(10.8)	32.3	31.3	31.3	31.3
Minority Interest	31.3	43.8	12.5	(58.2)	(75.8)	(98.2)
Net profit	24,347	58,161	53,180	58,129	75,705	98,061
Exceptional items	-	-	(2,607)	-	-	-
Adjusted net profit	24,347	58,161	55,788	58,129	75,705	98,061
<i>Change (yoy, %)</i>	(5)	139	(4)	4	30	30
EPS	89	202	193	201	262	340
Dividend per share	14	13	37	40	53	68
<i>Dividend Payout %</i>	15	6	19	20	20	20

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	283,647	391,155	441,747	485,845	543,276	617,668
Share capital	2,746	2,886	2,887	2,887	2,887	2,887
Reserves & surplus	280,901	388,269	438,860	482,958	540,389	614,781
Total Debt	231,806	224,085	192,348	173,113	129,835	64,918
Other liabilities	34,444	49,120	60,407	60,407	60,407	60,407
Curr Liab & prov	108,289	128,843	167,276	186,294	206,542	221,665
Current liabilities	99,961	121,039	158,403	176,411	195,586	209,907
Provisions	8,327	7,804	8,873	9,882	10,956	11,759
Total liabilities	374,539	402,047	420,031	419,814	396,784	346,990
Total equity & liabilities	658,315	793,277	861,835	905,774	940,251	964,947
Net fixed assets	493,479	589,615	570,983	594,085	606,676	603,757
Investments	33,400	59,054	121,781	121,781	121,781	121,781
Other non-curr assets	-	-	-	-	-	-
Current assets	131,436	144,608	169,071	189,908	211,794	239,409
Inventories	41,386	41,483	40,180	50,576	58,220	64,582
Sundry Debtors	26,513	22,383	25,717	31,309	37,884	42,873
Cash and Bank	41,841	5,392	20,076	14,686	15,232	26,309
Loans and advances	21,696	14,294	27,360	28,603	29,280	29,123
Total assets	658,315	793,277	861,835	905,774	940,251	964,947

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	35,378	52,435	78,555	84,661	110,260	142,821
Depreciation	24,507	27,022	27,002	26,898	27,409	27,920
Tax paid	(7,101)	(8,914)	(12,910)	(26,474)	(34,479)	(44,662)
Chg in working capital	(6,957)	4,503	23,289	(7,209)	(1,091)	(1,415)
Other operating activities	14,423	13,987	9,072	5,446	2,966	(1,144)
Cash flow from operations (a)	60,251	89,020	125,030	83,322	105,065	123,520
Capital expenditure	(16,482)	(17,037)	(18,414)	(50,000)	(40,000)	(25,000)
Chg in investments	27,667	(26,907)	(71,357)	-	-	-
Other investing activities	1,007	1,210	562	7,592	7,842	8,092
Cash flow from investing (b)	11,138	(42,094)	(88,590)	(42,408)	(32,158)	(16,908)
Equity raised/(repaid)	52	27	70	-	-	-
Debt raised/(repaid)	(46,482)	(27,164)	(25,646)	(19,235)	(43,278)	(64,918)
Dividend (incl. tax)	(20,312)	(22,744)	(18,056)	(27,069)	(29,081)	(30,618)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(827)	(31)	68	-	-	-
Cash flow from financing (c)	(67,568)	(49,911)	(43,565)	(46,304)	(72,360)	(95,535)
Net chg in cash (a+b+c)	3,821	(36,449)	14,683	(5,390)	547	11,076

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	1,033	1,355	1,530	1,683	1,882	2,140
Adj EPS (Rs)	88.7	201.5	193.3	201.4	262.3	339.7
Adj EPS growth (%)	-5	127	-4	4	30	30
EBITDA margin (%)	18.2	22.0	25.9	22.5	23.4	24.9
Pre-tax margin (%)	9	12	18	16	18	21
Net Debt/Equity (x)	0.7	0.6	0.4	0.3	0.2	0.1
ROCE (%)	9.0	10.8	13.1	12.7	15.6	19.2
ROE (%)	8.9	17.2	13.4	12.5	14.7	16.9
DuPont Analysis						
Asset turnover (x)	0.6	0.6	0.5	0.6	0.7	0.7
Leverage factor (x)	2.2	2.2	2.0	1.9	1.8	1.6
Net margin (%)	6.5	13.8	12.5	11.2	12.6	14.4
Working Capital & Liquidity ratio						
Inventory days	40	36	33	36	35	35
Receivable days	26	19	21	22	23	23
Payable days	119	135	174	160	155	150

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	89	39	41	39	30	23
Price/Book value (x)	7.6	5.8	5.1	4.7	4.2	3.7
EV/Net sales (x)	6	6	5	5	4	3
EV/EBITDA (x)	35	27	21	21	17	14
Dividend Yield (%)	0	0	0	1	1	1

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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