

## UltraTech Cement

HOLD

Margin could improve in Q1FY23

## Summary

Ultratech Cement (UTCEM) Q4FY22 EBITDA came in-line with consensus and ~10% higher than our estimate. Importantly due to low cost coal inventory and domestic coal usage, fuel cost/t was up only 3% QoQ. And EBITDA margin was maintained QoQ in Q4FY22. However, we have cut EBITDA estimate for FY23E/24E (exhibit 9) to factor lower volume, cost inflation. And revised TP to Rs6790 (earlier Rs7663) and retain HOLD rating. UTCEM has taken price hike of Rs600/t in April-22 and has guided fuel cost to increase by only 10% (Rs150/t) QoQ in Q1FY23E. This implies its EBITDA/t could expand QoQ in Q1FY23E. Company has reiterated its expansion plan of 16mtpa is on track and to complete by FY23E. Sustenance of demand and continuation of hiked price is the key catalyst for stock performance.

## Key Highlights and Investment Rationale

- **Q4FY22 snapshot:** UTCEM Q4FY22 revenue increased by 9% YoY to Rs158bn, with consolidated volume increasing by 5% YoY and ASP by 4% YoY. EBITDA at Rs30.7bn, down 17% YoY is led by cost inflation. EBITDA margin was at 19% vs. 26% YoY and PAT was up 3% YoY at Rs24.6bn (led by tax write back).
- **Pricing and demand trend:** In Apr'22, company has taken price hike compared to Q4FY22, more hikes can be attempted to mitigate cost inflation in May-22. Demand is better in April-22 vs April-21, and UTCEM has seen price hike has been absorbed in April-22.
- **Capex plan intact:** Post commissioning 3.2mtpa capacity in FY22, UTCEM has re-iterated its plan to commission remaining 16mtpa in FY23E. Thus FY23E will witness installed capacity to increase by 13% YoY to reach 136mtp and full benefit of capacity will be seen in FY24E.

TP **Rs6,790**CMP **Rs6,629**

Potential upside/downside 2%

Previous Rating HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.1)	(6.6)	5.7
Rel to Sensex	2.6	(6.4)	(11.3)

## V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	250	317
Consensus	265	322
% difference	(5.5)	(1.7)

## Key Stock Data

Bloomberg/Reuters	UTCEM IN/ULTC.BO
Sector	Cement
Shares o/s (mn)	289
Market cap. (Rs mn)	1,913,599
3-m daily avg Trd value (Rs mn)	120.9
52-week high / low	Rs 8,267 / 5,631
Sensex / Nifty	57,061 / 17,103

## Shareholding Pattern (%)

Promoters	60.0
FII	14.0
DII	16.4
Public	9.6

## Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	421,248	446,477	525,988	597,791	671,440
Change (yoy, %)	13	6	18	14	12
EBITDA	92,836	115,543	115,143	112,663	133,207
Change (yoy, %)	37	24	0	-2	18
EBITDA Margin(%)	22.0	25.9	21.9	18.8	19.8
Adj.PAT	58,161	55,824	71,626	72,146	91,544
EPS (Rs)	202	193	248	250	317
Change (yoy, %)	127	(4)	28	1	27
PE(x)	33	34	27	27	21
Dividend Yield (%)	0	1	1	1	1
EV/EBITDA (x)	23.4	18.5	17.9	18.0	14.6
RoE (%)	17	13	15	14	15
RoCE (%)	10	12	12	12	14

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 FY22.
- Urban infra has seen revival which was impacted due to covid induced slowdown. Company expects good traction from Infra, rural markets and urban infra in FY23.
- With regards to pricing company mentioned a)Price hikes were taken in Apr'22 currently of ~Rs30/bag compared to Q4FY22 average prices, b)More price hikes may be attempted to mitigate any extra cost inflation.
- On demand front, UTCEM commented that in sectors they cater to, projects in progress won't halt as it will not be practical, considering timelines and interest costs; new projects might see some stalling but overall demand is not expected to see any downturn on account of rising prices.
- Fuel and petcoke prices are expected to cool down going forward and company is improving it's efforts to improve efficiency. Fuel mix for Q4FY22 was petcoke/imported coke/linkage coal at 40%/40%/20%.
- Blended petcoke/coal cost for the quarter USD 164/mt and is expected to go up by 10% in Q1FY23E.
- Fuel inventory days stood at an average of 45-50 days.
- Ultratech recently acquired 29% of RAK Cement Co which will create synergies for Birla white. RAK Cement currently has capacity of 0.9mtpa of clinker and 0.6mtpa of white cement and operates at 65% utilization. With this acquisition, UTCEM has put new capacity expansion plan of Rs9.8bn on hold.
- Dallas super plant (2.3mtpa clinker capacity) has being approved in Stage 1 and is pending for approval at stage 2 and management expects the plant should be available by end of Q1FY22. This will require capex of Rs2-2.5bn.
- For FY22, UTCEM has spent Rs60bn on capex, for FY23E company plans capex of Rs40-50bn in order to complete all planned expansions and WHRS projects.
- Company has deleveraged it's balance sheet and Net debt/EBITDA currently stands at 0.32x. Going forward due to inorganic expansion Net debt/EBITDA might increase but will stabilize within 12 months.
- Capacity addition is expected to commission in Q2FY23E/ Q3FY23E/ Q4FY23E as 4mn/ 1.5mn/ 10.5mtpa respectively. Clinker capacity addition of 11mtpa is expected to be completed by Q3FY23E.

**Exhibit 1: Financial snapshot**

(Rs mn)

Particulars	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY ch (%)
Revenue	1,57,673	1,29,849	21	1,44,056	9
Cost of Sales ex Depreciation	1,33,979	1,12,398	19	1,14,132	17
EBITDA	30,728	24,194	27	36,904	-17
Margin %	19	19	86bps	26	-613bps
Depreciation	7,034	6,742	4	6,980	1
Other Income	924	705	31	603	53
Interest Expensed	2,063	1,823	13	3,772	-45
Pretax Profit	22,555	16,334	38	26,755	-16
Tax	-1,980	-760	161	8,649	-123
Net profit	24,605	17,077	44	17,752	39

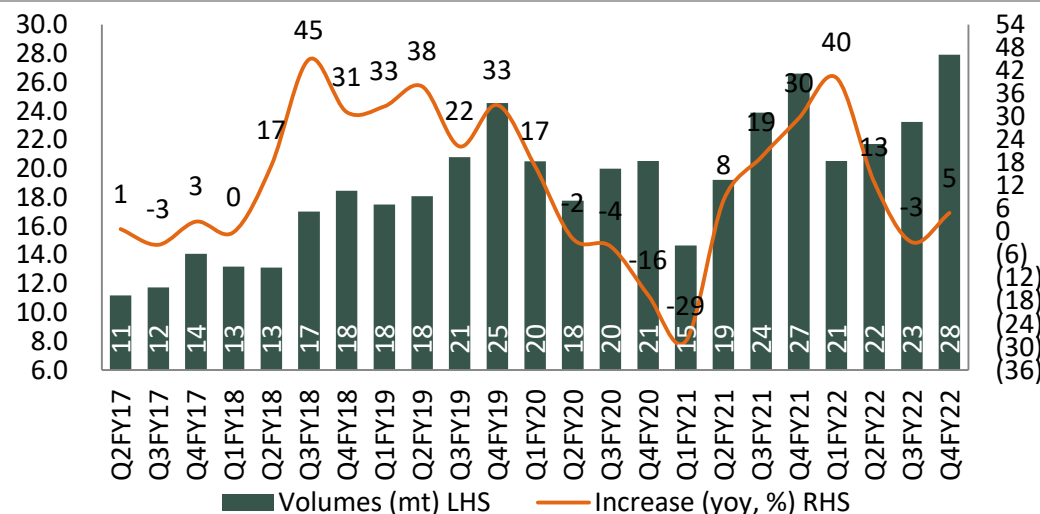
Source: Company

**Exhibit 2: Operational matrix**

Particulars	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY ch (%)
Volume mt	28	23	20	27	5
Selling price Rs/t	5,651	5,587	1	5,418	4
Raw material cost Rs/t	976	887	10	907	8
Employee cost Rs/t	225	277	-19	231	-3
Power & Fuel Cost Rs/t	1,422	1,386	3	1,017	40
Freight cost Rs/t	1,247	1,250	0	1,236	1
Other expenses Rs/t	680	747	-9	639	6
<b>EBITDA Rs/t</b>	<b>1,101</b>	<b>1,041</b>	<b>6</b>	<b>1,388</b>	<b>-21</b>

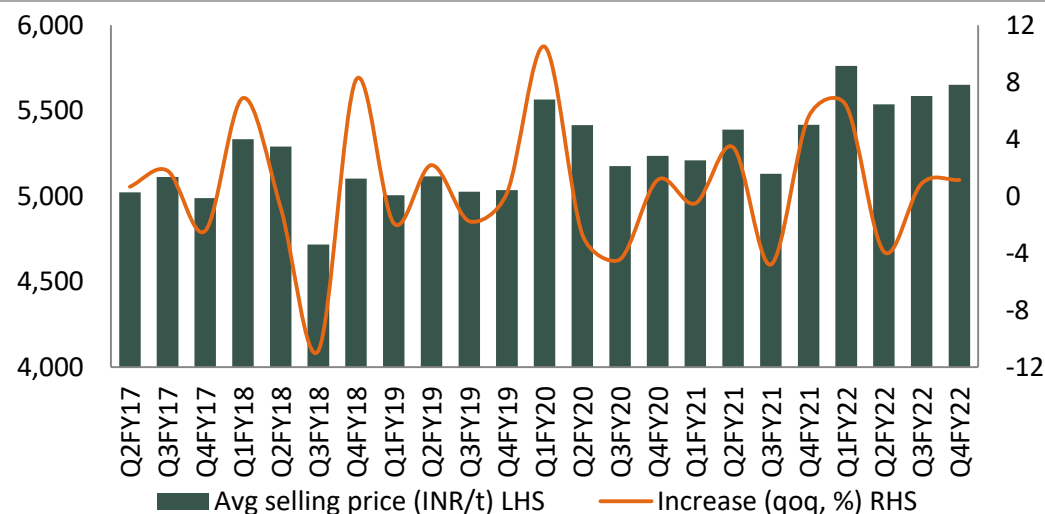
Source: Company

**Exhibit 3: Q4FY22 volume up by 5% YoY**



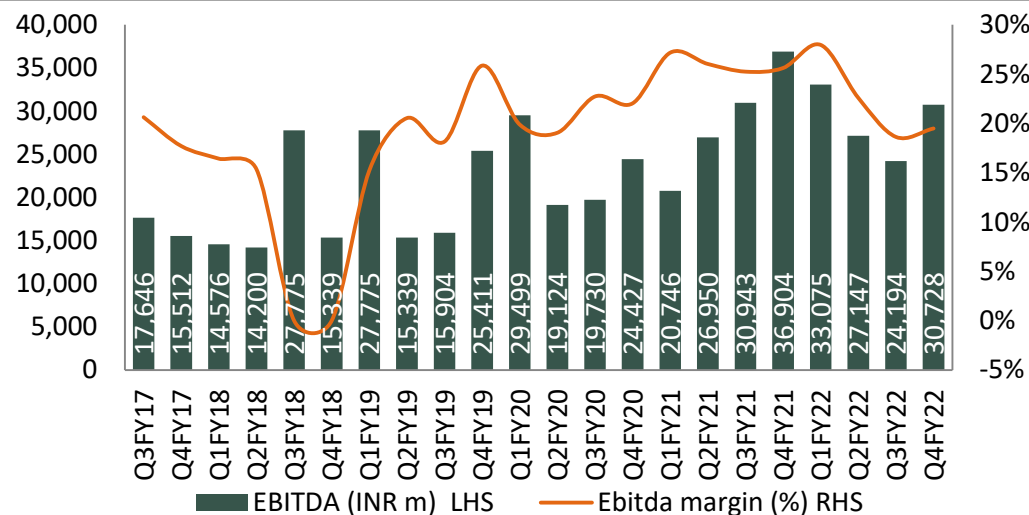
Source : Company

**Exhibit 4: Q4FY22 cement price increased by 1.1% QoQ**



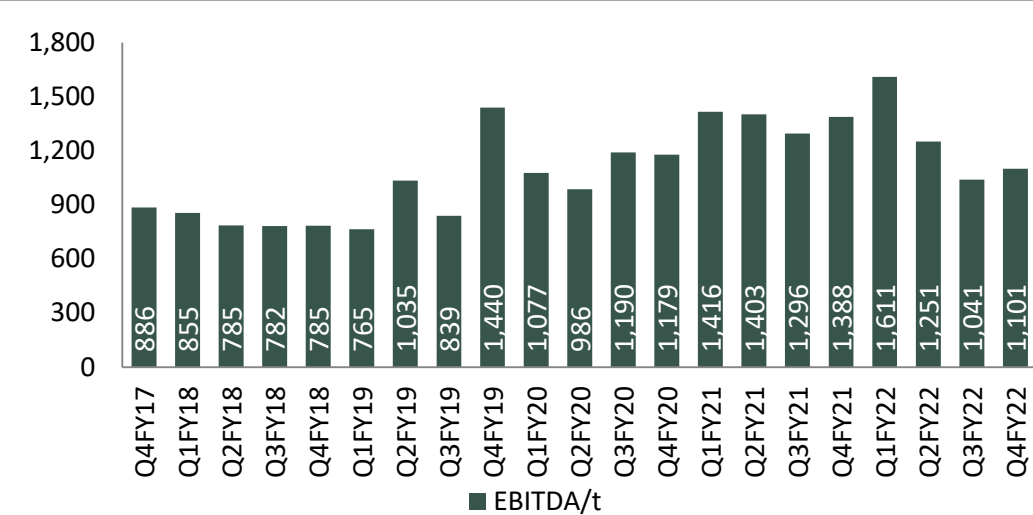
Source : Company

**Exhibit 5: Q4FY22 EBITDA margin maintained at 19%**



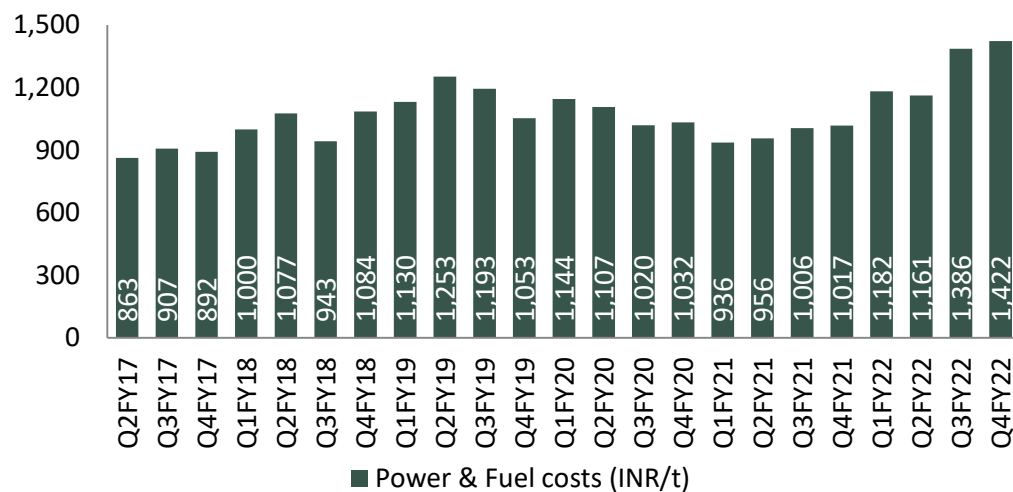
Source : Company

**Exhibit 6: Q4FY22 EBITDA /t at Rs1101 (Rs/t)**



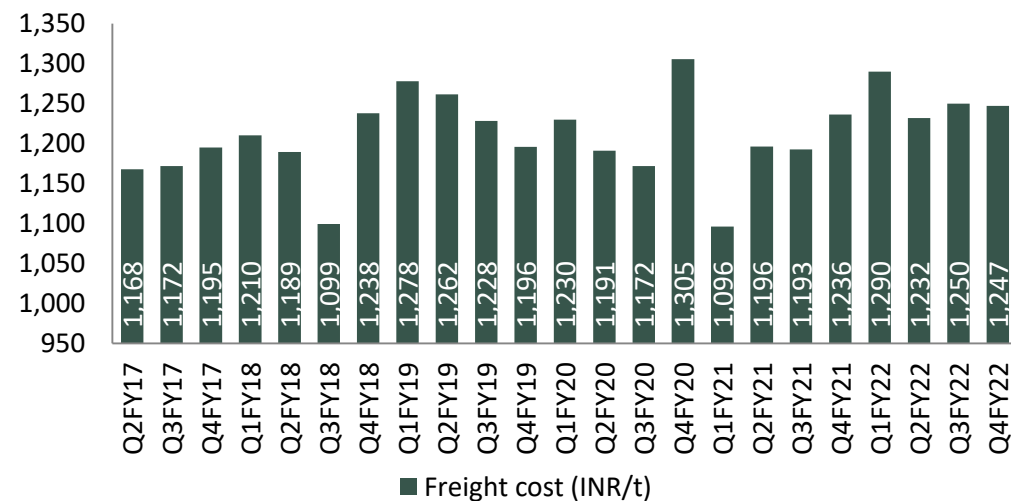
Source : Company

Exhibit 7: Q4FY22 fuel cost at Rs1422/t



Source : Company

Exhibit 8: Q4FY22 freight cost flat QoQ (Rs/t)



Source : Company

Exhibit 9: Valuation Summary

	FY24E
EBITDA Rs mn	133,207
EV/EBIDTA multiple x	15
EV Rs mn	1,998,103
Debt Rs mn	152,155
Cash Rs mn	113,886
Net Debt Rs mn	38,269
Mcap Rs mn	1,959,835
Shares m	288.7
<b>TP Rs/sh</b>	<b>6,790</b>

Source: IDBI Capital Research

**Exhibit 10: Valuation band (EV/EBITDA)**



Source: Bloomberg

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net sales</b>	<b>373,792</b>	<b>421,248</b>	<b>446,477</b>	<b>525,988</b>	<b>597,791</b>	<b>671,440</b>
<i>Change (yoy, %)</i>	19	13	6	18	14	12
Operating expenses	(305,911)	(328,413)	(330,934)	(410,845)	(485,128)	(538,233)
<b>EBITDA</b>	<b>67,881</b>	<b>92,836</b>	<b>115,543</b>	<b>115,143</b>	<b>112,663</b>	<b>133,207</b>
<i>Change (yoy, %)</i>	10	37	24	0	-2	18
<i>Margin (%)</i>		22.0	25.9	21.9	18.8	19.8
Depreciation	(21,398)	(27,022)	(26,906)	(27,148)	(27,409)	(27,920)
<b>EBIT</b>	<b>46,483</b>	<b>65,814</b>	<b>88,637</b>	<b>87,996</b>	<b>85,254</b>	<b>105,287</b>
Interest paid	(15,486)	(19,857)	(14,833)	(9,447)	(6,385)	(4,029)
Other income	4,381	6,478	7,420	5,078	5,328	5,578
<b>Pre-tax profit</b>	<b>35,378</b>	<b>52,435</b>	<b>75,904</b>	<b>83,627</b>	<b>84,197</b>	<b>106,836</b>
Tax	(11,063)	5,682	(25,387)	(11,901)	(11,979)	(15,200)
<i>Effective tax rate (%)</i>	31.3	(10.8)	33.4	14.2	14.2	14.2
Minority Interest	31.3	43.8	(12.5)	(100.5)	(72.2)	(91.6)
<b>Net profit</b>	<b>24,347</b>	<b>58,161</b>	<b>50,505</b>	<b>71,626</b>	<b>72,146</b>	<b>91,544</b>
Exceptional items	-	-	(5,319)	-	-	-
<b>Adjusted net profit</b>	<b>24,347</b>	<b>58,161</b>	<b>55,824</b>	<b>71,626</b>	<b>72,146</b>	<b>91,544</b>
<i>Change (yoy, %)</i>	(5)	139	(4)	28	1	27
EPS	89	202	193	248	250	317
Dividend per share	14	13	37	38	53	67
<i>Dividend Payout %</i>	15	6	19	15	21	21

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Shareholders' funds</b>	<b>337,507</b>	<b>391,155</b>	<b>441,747</b>	<b>504,353</b>	<b>558,279</b>	<b>626,705</b>
Share capital	2,746	2,886	2,887	2,887	2,887	2,887
Reserves & surplus	334,760	388,269	438,860	501,466	555,392	623,818
<b>Total Debt</b>	<b>276,398</b>	<b>264,085</b>	<b>248,193</b>	<b>152,155</b>	<b>118,429</b>	<b>52,314</b>
Other liabilities	68,521	55,131	67,524	65,605	65,605	65,605
<b>Curr Liab &amp; prov</b>	<b>82,827</b>	<b>82,925</b>	<b>104,314</b>	<b>116,196</b>	<b>143,613</b>	<b>151,367</b>
Current liabilities	75,157	75,027	95,440	107,538	132,912	140,088
Provisions	7,671	7,898	8,873	8,658	10,701	11,279
<b>Total liabilities</b>	<b>427,746</b>	<b>402,141</b>	<b>420,031</b>	<b>333,956</b>	<b>327,647</b>	<b>269,286</b>
<b>Total equity &amp; liabilities</b>	<b>765,374</b>	<b>793,371</b>	<b>861,835</b>	<b>838,278</b>	<b>885,968</b>	<b>896,124</b>
Net fixed assets	577,979	579,020	570,983	602,722	625,314	612,394
Investments	73,017	106,715	159,288	110,294	110,294	110,294
Other non-curr assets	-	-	-	-	-	-
<b>Current assets</b>	<b>114,378</b>	<b>107,637</b>	<b>131,564</b>	<b>125,261</b>	<b>150,360</b>	<b>173,436</b>
Inventories	40,990	41,483	40,180	55,956	63,810	70,594
Sundry Debtors	27,870	22,383	25,717	30,716	37,669	42,310
Cash and Bank	7,397	5,392	20,076	3,592	8,791	19,843
Loans and advances	12,441	12,586	20,143	18,788	22,589	22,014
<b>Total assets</b>	<b>765,374</b>	<b>793,371</b>	<b>861,835</b>	<b>838,278</b>	<b>885,968</b>	<b>896,124</b>



**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	35,378	52,435	75,904	83,627	84,197	106,836
Depreciation	24,507	27,022	27,002	27,148	27,409	27,920
Tax paid	(7,101)	(8,914)	(12,910)	(15,549)	(11,979)	(15,200)
Chg in working capital	(6,957)	4,503	23,289	(4,730)	7,517	(4,269)
Other operating activities	14,423	13,987	9,072	2,320	1,057	(1,549)
<b>Cash flow from operations (a)</b>	<b>60,251</b>	<b>89,020</b>	<b>125,030</b>	<b>92,832</b>	<b>108,201</b>	<b>113,737</b>
Capital expenditure	(16,482)	(17,037)	(18,414)	(56,062)	(50,000)	(15,000)
Chg in investments	27,667	(26,907)	(71,357)	61,610	-	-
Other investing activities	1,007	1,210	773	1,744	5,328	5,578
<b>Cash flow from investing (b)</b>	<b>11,138</b>	<b>(42,094)</b>	<b>(88,590)</b>	<b>22,570</b>	<b>(44,672)</b>	<b>(9,422)</b>
Equity raised/(repaid)	52	27	70	44	-	-
Debt raised/(repaid)	(46,482)	(27,164)	(25,646)	(103,938)	(33,726)	(66,115)
Dividend (incl. tax)	(20,312)	(22,744)	(18,056)	(20,259)	(24,749)	(27,331)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(827)	(31)	68	(825)	-	-
<b>Cash flow from financing (c)</b>	<b>(67,568)</b>	<b>(49,911)</b>	<b>(43,565)</b>	<b>(124,979)</b>	<b>(58,475)</b>	<b>(93,446)</b>
<b>Net chg in cash (a+b+c)</b>	<b>3,821</b>	<b>(2,005)</b>	<b>14,683</b>	<b>(16,484)</b>	<b>5,199</b>	<b>11,052</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	1,033	1,355	1,530	1,747	1,934	2,171
Adj EPS (Rs)	88.7	201.5	193.4	248.1	249.9	317.1
Adj EPS growth (%)	-5	127	-4	28	1	27
EBITDA margin (%)	18.2	22.0	25.9	21.9	18.8	19.8
Pre-tax margin (%)	9	12	17	16	14	16
Net Debt/Equity (x)	0.9	0.7	0.5	0.3	0.2	0.1
ROCE (%)	8.4	9.8	12.1	11.9	11.6	14.2
ROE (%)	8.9	17.2	13.4	15.1	13.6	15.5

### DuPont Analysis

Asset turnover (x)	0.6	0.5	0.5	0.6	0.7	0.8
Leverage factor (x)	2.4	2.3	2.0	1.8	1.6	1.5
Net margin (%)	6.5	13.8	12.5	13.6	12.1	13.6

### Working Capital & Liquidity ratio

Inventory days	40	36	33	39	39	38
Receivable days	27	19	21	21	23	23
Payable days	90	83	105	96	100	95

### 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

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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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