

## UltraTech Cement

HOLD

Price hike to improve margin

## Summary

Ultratech Cement (UTCEM) Q2FY22 EBITDA was in-line with our estimate. Opex/t was up Rs389/t QoQ and 40% of it is driven by higher other expenses. Q2FY22 power and fuel cost increased by Rs47/t QoQ (4% QoQ) and is lower than our estimate due to low cost inventory, fuel cost efficiencies and higher consumption of green power. On pricing front, UTCEM has increased its prices by Rs10-15/bag in Oct-21 to offset the cost inflation. And has guided for EBITDA margin of 26-28% for the coming quarter. It has commissioned 1.2mt brownfield expansion in the Eastern markets and re-iterated to commission total 4mtpa in FY22E and 15mtpa in FY23E. UTCEM's balance sheet continues to remain lean and Net Debt/ EBITDA at 0.47x. From valuation perspective we are valuing at its peak (exhibit 10) to arrive at TP. But given negligible upside we have HOLD rating. Price hike is the key catalyst for stock performance.

## Key Highlights and Investment Rationale

- Snapshot on Q2FY22:** UTCEM Q2 revenue increased by 16% YoY led by volume increase of 7% YoY. EBITDA stood at Rs27bn (+1% YoY/-18% QoQ) and EBITDA/t at Rs1325 in Q2. Opex/t was up Rs389/t QoQ and 40% of it is driven by higher other expenses. This is led by increase in packing cost and normalisation of other fixed cost. PAT stood at Rs13bn, +6% YoY.
- Balance sheet lean despite capex:** UTCEM has commissioned 1.2mt capacity in West Bengal and Bihar unit (part of 3.2mt scheduled for FY22). In Q2FY22 company has commissioned 12MW of WHRS and 21MW of solar power. UTCEM has incurred Rs20bn capex in 1H and pan to incur Rs30bn in 2HFY22. In Q2FY22 UTCEM has retired Rs52bn of long term debt, and Q2FY22 Net Debt/EBITDA stood at 0.47x.
- EBITDA/t going ahead:** UTCEM EBITDA/t reduced to Rs1325 vs Rs1611 QoQ. Company has increased cement prices to absorb the cost inflation. And has guided uptick in EBITDA/t in 2HFY22.

TP	Rs7,663		
CMP	Rs7,398		
Potential upside / downside	+4%		
Previous Rating	HOLD		

## V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	236.7	286.8	332.8
Consensus	242.7	288.3	360.5
% difference	(2.5)	(0.5)	(7.7)

## Shareholding Pattern (%)

Promoters	60.0
FII	16.5
DII	14.5
Public	9.0

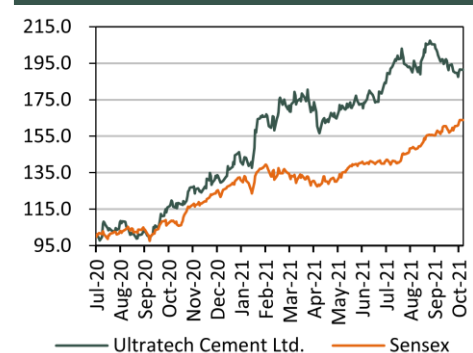
## Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.0)	0.9	65.1
Rel to Sensex	(7.9)	(14.5)	11.8

## Key Stock Data

Bloomberg / Reuters	UTCEM IN/ULTC.BO
Sector	Cement
Shares o/s (mn)	289
Market cap. (Rs mn)	21,35,418
Market cap. (US\$ mn)	28,316
3-m daily avg Trd value (Rs mn)	--
52-week high / low	Rs8,071 / 4,440
Sensex / Nifty	61,306 / 18,339

## Relative to Sensex (%)



## Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	4,21,248	4,47,258	5,12,574	5,94,471	6,48,667
EBITDA	92,836	1,15,679	1,32,196	1,51,304	1,67,047
EBITDA (%)	22.0	25.9	25.8	25.5	25.8
Adj. PAT	58,161	55,788	68,331	82,798	96,074
EPS (Rs)	201.5	193.3	236.7	286.8	332.8
EPS Growth (%)	127.3	(4.1)	22.5	21.2	16.0
PE (x)	36.7	38.3	31.2	25.8	22.2
Dividend Yield (%)	0.2	0.5	0.6	0.8	0.9
EV/EBITDA (x)	25.3	19.9	17.2	14.6	12.8
RoE (%)	17.2	13.4	14.6	15.8	16.2
RoCE (%)	10.8	13.1	14.8	16.8	18.5

Source: IDBI Capital Research;

### Conference call highlights

- UTCEM recorded domestic sales growth of 8% YoY and 17% YoY in white cement. Company expects cement demand to grow by 6-8% in H2FY22.
- On pricing front, UTCEM has increased its cement prices to manage the arising cost of production. On an average, company has increased its price by Rs10-15/ bag in almost all regions in Oct-21.
- On Other expenses front, Company expects its FY22 overheads numbers similar to its FY20 levels. Thus, it has absorbed the inflation.
- Q2FY22 UTCEM has reached 4.4% of its total fuel consumption as alternate fuel. Also UTCEM has been dependent on the domestic coal and it consists of ~12-15% of its total fuel mix.
- UTCEM has commissioned 1.2mt brownfield expansion in West Bengal and Bihar unit (part of 3.2mt scheduled for FY22).
- Going forward, Company mentioned that next-in-line for FY22 is the 2mt phase-II for the Bara grinding unit. Though there were some delays but it has been back on track. And it is expected to get commissioned by the end of FY22. Also all other projects of 19.5mt expansion plans are on track by FY23.
- UTCEM mentioned that Bicharpur coal block is expected to start its operations from Q3FY22 and the coal will be used in the cluster plants.
- In Q2FY22 UTCEM has commissioned 12MW of WHRS and 21MW of solar power. This expansion led to an increase in the company's green energy share up to 15%
- UTCEM continues to maintain its negative working capital of ~8-9 days in Q2FY22.
- UTCEM generated operating cash flow of Rs17.5bn and a large part of this was used on on-going capex plans. H1FY22 Capex stood at Rs23bn and further the company is expected to end FY22 with capex of worth Rs40bn.
- In Q2FY22 UTCEM trimmed its treasury surplus to Rs76bn and retired Rs52bn of long term debt. Q2FY22 Net Debt/EBITDA stood at 0.47x and is expected to further improve QoQ. With rising sales volume and expansions coming on, the reduction in net debt will certainly pick up pace moving forward.
- Q2FY22 Blended cost stood at \$120. Going forward company expects the cost to be ~\$130-140 for Q3FY22.
- On margin front, UTCEM expects to maintain EBITDA margin of ~26-28% on a steady state.

**Exhibit 1: Financial snapshot**

(Rs mn)

Particulars	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY ch (%)
Revenue	1,20,168	1,18,298	2	1,03,542	16
Cost of Sales ex Depri	99,795	91,822	9	83,317	20
EBITDA	27,147	33,075	-18	26,950	1
Depreciation	6,774	6,598	3	6,725	1
Other Income	1,401	2,049	-32	1,349	4
Interest Expensed	2,300	3,261	-29	3,568	-36
Pretax Profit	19,474	25,265	-23	18,006	8
Tax	6,371	8,269	-23	5,662	13
Profit	13,135	17,026	-23	12,339	6

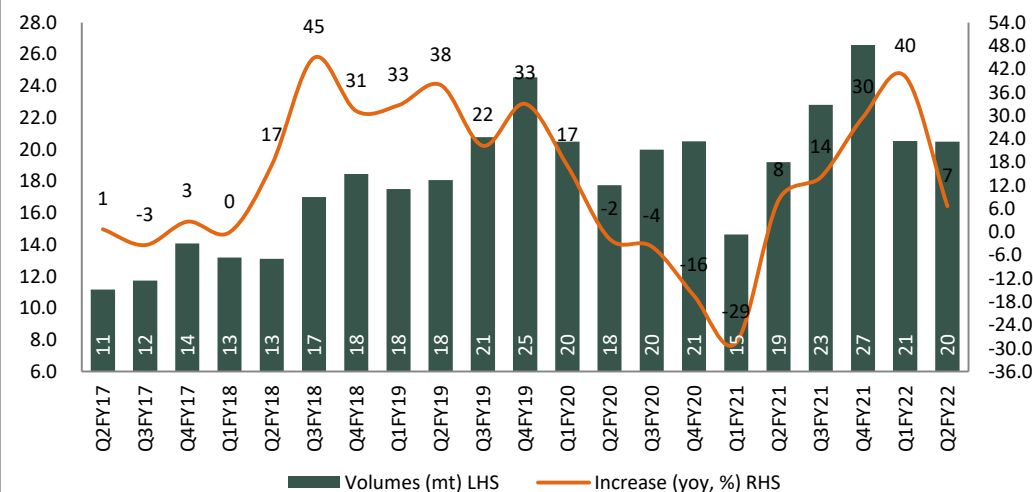
Source: Company

**Exhibit 2: Operational matrix**

Particulars	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY ch (%)
Volume mt	20	21	0	19	7
Selling price Rs/t	5,865	5,762	2	5,390	9
Raw material cost Rs/t	844	707	19	865	-2
Employee cost Rs/t	332	285	16	293	13
Power & Fuel Cost Rs/t	1,230	1,182	4	956	29
Freight cost Rs/t	1,305	1,290	1	1,196	9
Other expenses Rs/t	829	687	21	676	23
<b>EBITDA Rs/t</b>	<b>1,325</b>	<b>1,611</b>	<b>-18</b>	<b>1,403</b>	<b>-6</b>

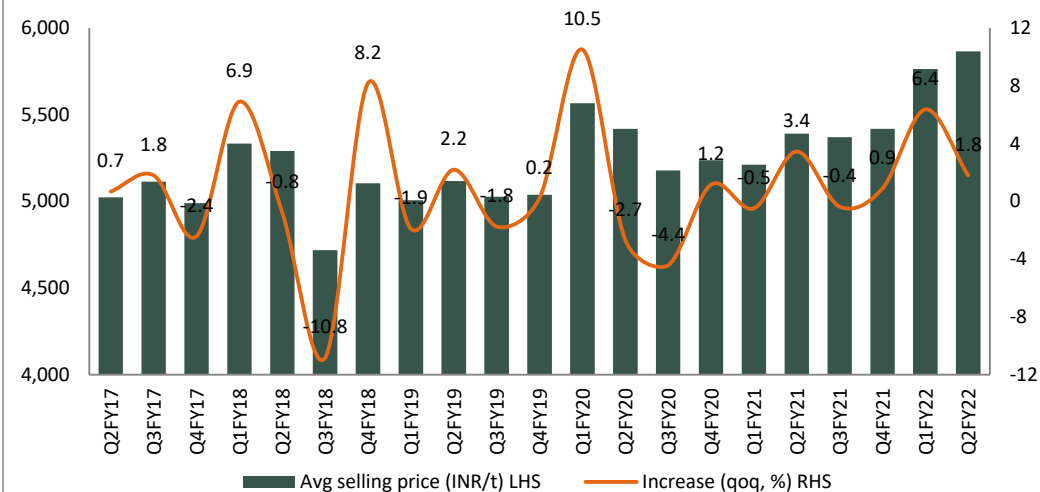
Source: Company

**Exhibit 3: Q2FY22 volume up by 7% YoY**



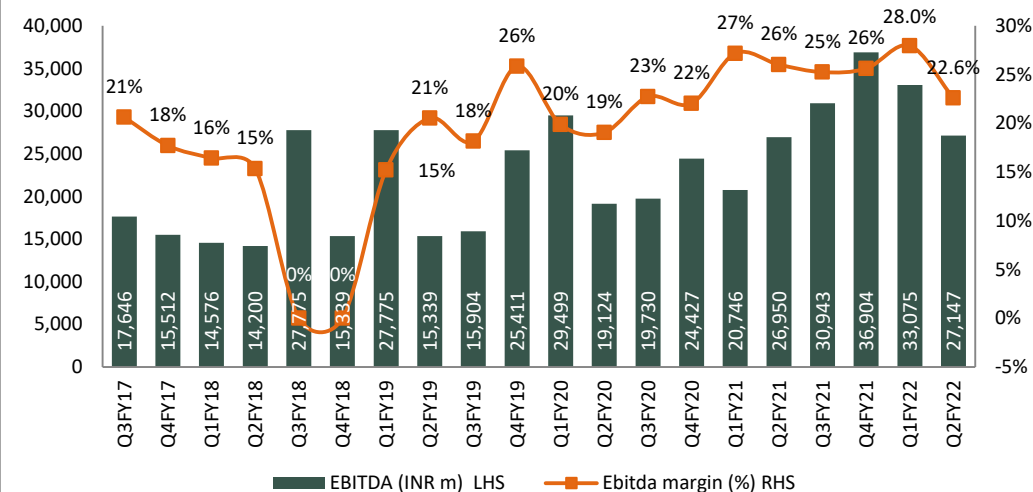
Source : Company

**Exhibit 4: Q2FY22 cement price increased by 1.8% QoQ**



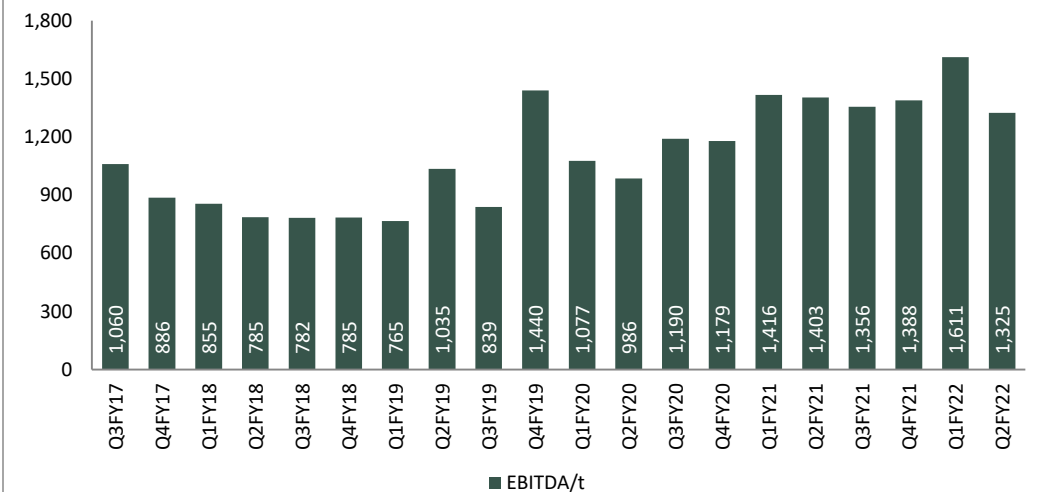
Source : Company

**Exhibit 5: Q2FY22 EBITDA margins decreased to 22.6% vs 28% QoQ**



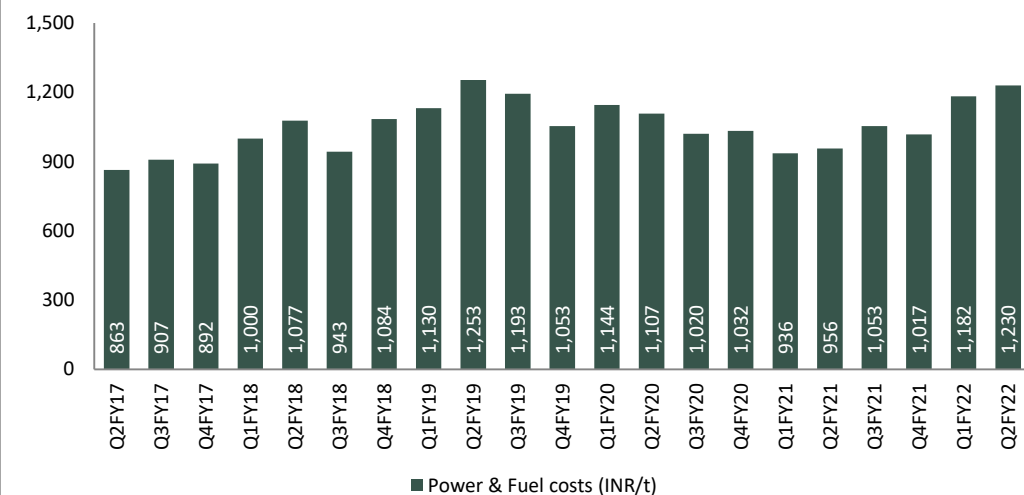
Source : Company

**Exhibit 6: Q2FY22 EBITDA /t at Rs1325 (Rs/t)**



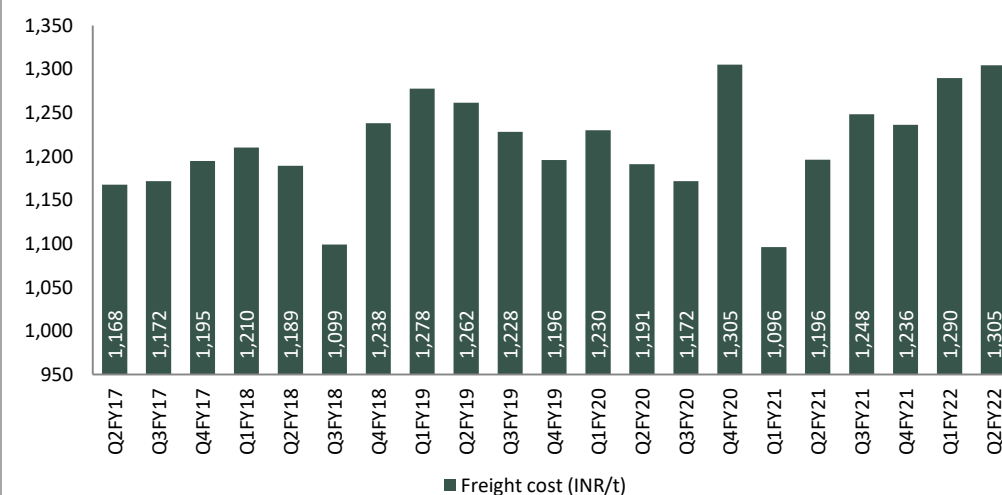
Source : Company

Exhibit 7: Q2FY22 fuel cost up QoQ (Rs/t)



Source : Company

Exhibit 8: Q2FY22 freight cost up QoQ (Rs/t)



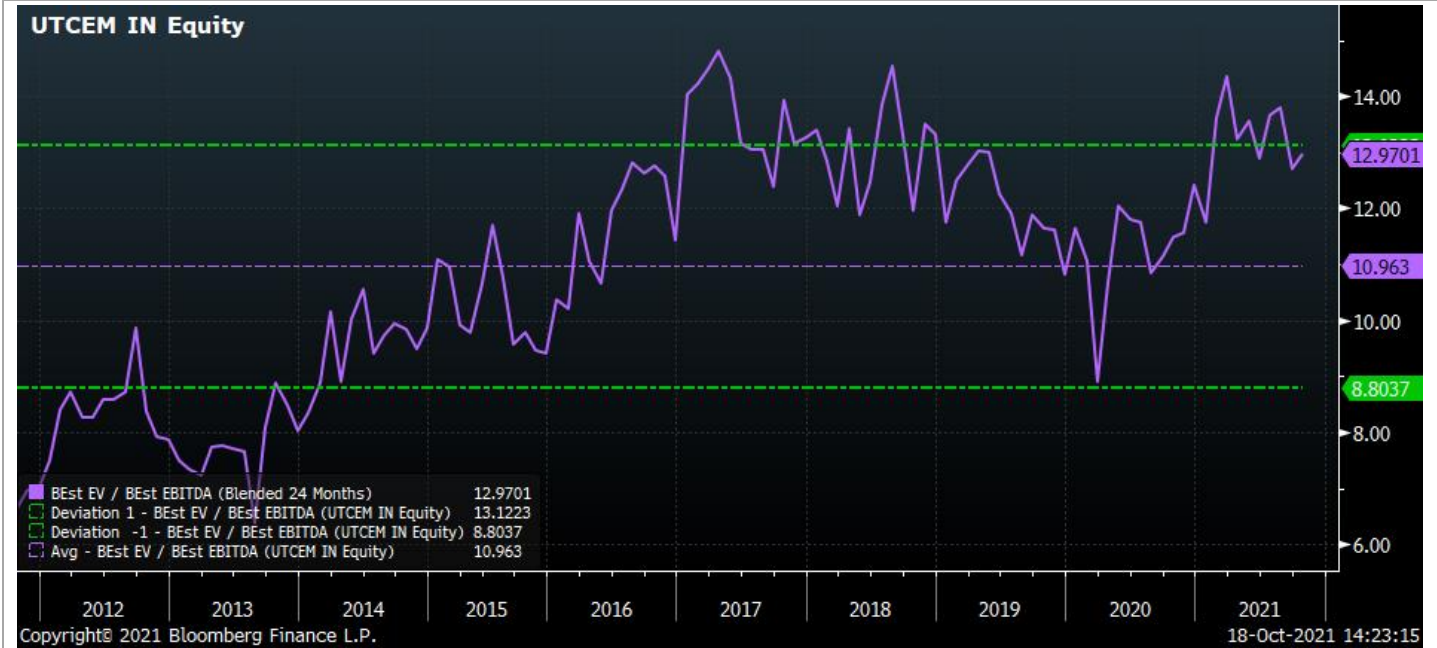
Source : Company

Exhibit 9: Valuation Summary

	FY24E
EBITDA Rs mn	167,047
EV/EBITDA multiple x	13
EV Rs mn	2,171,607
Debt Rs mn	129,835
Cash Rs mn	170,223
Net Debt Rs mn	(40,388)
Mcap Rs mn	2,211,996
Shares m	288.7
<b>TP Rs/sh</b>	<b>7,663</b>

Source: IDBI Capital Research

Exhibit 10: Valuation band EV/EBITDA



Source: Bloomberg

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
<b>Net sales</b>	<b>4,47,258</b>	<b>5,12,574</b>	<b>5,94,471</b>	<b>6,48,667</b>
<i>Growth (%)</i>	6.2	14.6	16.0	9.1
Operating expenses	(3,31,579)	(3,80,378)	(4,43,167)	(4,81,621)
<b>EBITDA</b>	<b>1,15,679</b>	<b>1,32,196</b>	<b>1,51,304</b>	<b>1,67,047</b>
<i>Growth (%)</i>	24.6	14.3	14.5	10.4
Depreciation	(27,002)	(27,230)	(27,747)	(28,264)
<b>EBIT</b>	<b>88,677</b>	<b>1,04,966</b>	<b>1,23,557</b>	<b>1,38,782</b>
Interest paid	(14,857)	(13,038)	(10,808)	(6,948)
Other income	7,342	7,592	7,842	8,092
<b>Pre-tax profit</b>	<b>78,555</b>	<b>99,520</b>	<b>1,20,591</b>	<b>1,39,926</b>
Tax	(25,387)	(31,121)	(37,710)	(43,756)
<i>Effective tax rate (%)</i>	32.3	31.3	31.3	31.3
Minority Interest	12.5	(68.4)	(82.9)	(96.2)
<b>Net profit</b>	<b>53,180</b>	<b>68,331</b>	<b>82,798</b>	<b>96,074</b>
Exceptional items	(2,607)	-	-	-
<b>Adjusted net profit</b>	<b>55,788</b>	<b>68,331</b>	<b>82,798</b>	<b>96,074</b>
<i>Growth (%)</i>	(4.1)	22.5	21.2	16.0
<i>Shares o/s (mn nos)</i>	289	289	289	289

### Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	78,555	99,520	1,20,591	1,39,926
Depreciation	27,002	27,230	27,747	28,264
Tax paid	(12,910)	(31,121)	(37,710)	(43,756)
Chg in working capital	23,289	(11,685)	(2,213)	(4,540)
Other operating activities	9,072	5,446	2,966	(1,144)
<b>Cash flow from operations (a)</b>	<b>1,25,030</b>	<b>89,390</b>	<b>1,11,381</b>	<b>1,18,751</b>
Capital expenditure	(18,414)	(40,000)	(25,000)	(25,000)
Chg in investments	(71,357)	-	-	-
Other investing activities	562	7,592	7,842	8,092
<b>Cash flow from investing (b)</b>	<b>(88,590)</b>	<b>(32,408)</b>	<b>(17,158)</b>	<b>(16,908)</b>
Equity raised/(repaid)	70	-	-	-
Debt raised/(repaid)	(25,646)	(19,235)	(43,278)	(64,918)
Dividend	(18,056)	(29,531)	(30,793)	(30,138)
Chg in minorities	-	-	-	-
Other financing activities	68	-	-	-
<b>Cash flow from financing (c)</b>	<b>(43,565)</b>	<b>(48,766)</b>	<b>(74,072)</b>	<b>(95,055)</b>
<b>Net chg in cash (a+b+c)</b>	<b>14,683</b>	<b>8,215</b>	<b>20,151</b>	<b>6,787</b>

## Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	5,70,983	5,83,753	5,81,006	5,77,742
Investments	1,21,781	1,21,781	1,21,781	1,21,781
Other non-curr assets	-	-	-	-
<b>Current assets</b>	<b>1,69,071</b>	<b>1,97,777</b>	<b>2,42,796</b>	<b>2,64,400</b>
Inventories	40,180	46,666	54,911	59,734
Sundry Debtors	25,717	30,895	37,460	40,875
Cash and Bank	20,076	28,291	48,442	55,229
Marketable Secu.	-	-	-	-
Loans and advances	27,360	28,047	27,899	27,724
<b>Total assets</b>	<b>8,61,835</b>	<b>9,03,311</b>	<b>9,45,583</b>	<b>9,63,923</b>
<b>Shareholders' funds</b>	<b>4,41,747</b>	<b>4,93,584</b>	<b>5,56,397</b>	<b>6,29,280</b>
Share capital	2,887	2,887	2,887	2,887
Reserves & surplus	4,38,860	4,90,698	5,53,510	6,26,394
<b>Total Debt</b>	<b>1,92,348</b>	<b>1,73,113</b>	<b>1,29,835</b>	<b>64,918</b>
Secured loans	1,49,997	1,34,997	1,01,248	50,624
Unsecured loans	42,351	38,116	28,587	14,294
Other liabilities	60,407	60,407	60,407	60,407
<b>Curr. Liab. &amp; prov.</b>	<b>1,67,276</b>	<b>1,76,082</b>	<b>1,98,736</b>	<b>2,09,014</b>
Current liabilities	1,58,403	1,66,741	1,88,194	1,97,926
Provisions	8,873	9,341	10,542	11,087
<b>Total liabilities</b>	<b>4,20,031</b>	<b>4,09,602</b>	<b>3,88,978</b>	<b>3,34,338</b>
<b>Total equity &amp; liabilities</b>	<b>8,61,835</b>	<b>9,03,311</b>	<b>9,45,583</b>	<b>9,63,923</b>
<b>Book Value (Rs)</b>	<b>1,530</b>	<b>1,710</b>	<b>1,928</b>	<b>2,180</b>

Source: Company; IDBI Capital Research

## Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	193.3	236.7	286.8	332.8
Adj. EPS growth (%)	(4.1)	22.5	21.2	16.0
EBITDA margin (%)	25.9	25.8	25.5	25.8
Pre-tax margin (%)	17.6	19.4	20.3	21.6
ROE (%)	13.4	14.6	15.8	16.2
ROCE (%)	13.1	14.8	16.8	18.5
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.5	0.6	0.6	0.7
Leverage factor (x)	2.0	1.9	1.8	1.6
Net margin (%)	12.5	13.3	13.9	14.8
Net Debt/Equity (x)	0.4	0.3	0.1	0.0
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	33	33	34	34
Receivable days	21	22	23	23
Payable days	174	160	155	150

## Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	38.3	31.2	25.8	22.2
Price / Book value (x)	4.8	4.3	3.8	3.4
PCE (x)	25.8	22.3	19.3	17.2
EV / Net sales (x)	5.2	4.4	3.7	3.3
EV / EBITDA (x)	19.9	17.2	14.6	12.8
Dividend Yield (%)	0.5	0.6	0.8	0.9





# 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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