

UltraTech Cement

HOLD

Weak quarter, improvement expected in H2FY25

Summary

Ultratech (UTCEM) Q1FY25 EBITDA came below consensus estimates by 11% and it reported EBITDA/t of Rs951 down by Rs165/t QoQ, mainly due to further decrease in ASP across the country. Despite decline in EBITDA/t, it was supported by drop in freight cost and operating leverage benefit. UTCEM plans to bring down Opex/t by Rs300/t by improvising fuel mix, enhancing WHRS capacity & reducing lead distance. UTCEM capacity addition plans are intact with installed capacity to reach 157mtpa by FY25E up 18% YoY and further increase of 17% over FY25-27E. We have changed our rating to HOLD (earlier BUY) with TP of Rs10,816, valuing at 17x FY26E EV/EBITDA. Demand is expected to remain muted in 1HFY25 and to improve in 2HFY25 as policy formation takes place under new government.

Key Highlights and Investment Rationale

- **Q1FY25 snapshot:** Q1FY25 Revenue stood at Rs180bn, up 2% YoY and is led by volume increase of 7% YoY. Consol ASP is down 3% QoQ and is due to dip in cement prices across country. EBITDA/t stood at Rs951/t down QoQ due to ASP decrease of Rs165/t QoQ. But overall cost reduction maintained EBITDA/t.
- **Cement demand & prices:** Cement prices have further declined in Q1FY25 due to demand softness & Central Elections. However here, UTCEM expects 7-8% industry demand growth in FY25E. UTCEM expects cement prices to not further decline from current levels but demand would be lower until monsoon.
- **Reduce the Operating costs:** UTCEM will be reducing the opex/t by Rs300/t by improvising fuel mix, enhancing WHRS capacity to 60-65% by FY27, increasing AFR Share to 15%, and reducing lead distance by 25kms by spreading across 70 locations across country.

TP **Rs10,816**CMP **Rs11,268**Potential upside/downside **-4%**Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	3.3	20.3	37.0
Rel to Sensex	(0.7)	10.0	17.7

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	289	382
Consensus	299	379
% difference	(3.4)	0.8

Key Stock Data

Bloomberg/Reuters	UTCEM IN/ULTC.BO
Sector	Cement
Shares o/s (mn)	289
Market cap. (Rs mn)	3,253,070
3-m daily avg Trd value (Rs mn)	71.8
52-week high / low	Rs 12,078 / 7,941
Sensex / Nifty	80,605 / 24,531

Shareholding Pattern (%)

Promoters	60.0
FII	18.2
DII	13.8
Public	8.0

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	5,25,988	6,32,400	7,09,081	7,88,357	9,14,697
Change (yoy, %)	18	20	12	11	16
EBITDA	1,15,143	1,06,199	1,29,686	1,52,927	1,92,885
Change (yoy, %)	0	-8	22	18	26
EBITDA Margin(%)	21.9	16.8	18.3	19.4	21.1
Adj.PAT	71,827	50,599	69,830	83,429	1,10,142
EPS (Rs)	249	175	242	289	382
Change (yoy, %)	42	-30	38	19	32
PE(x)	45	64	47	39	30
Dividend Yield (%)	0.3	0.3	0.5	0.6	0.7
EV/EBITDA (x)	29	31	26	22	17
RoE (%)	15	10	12	13	16
RoCE (%)	12	11	13	13	16

Source: IDBI Capital Research

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Conference call highlights

- Rural demand gained momentum in Q1FY25 growing by 9% YoY, infra sector saw slowdown, however it is expected to pick up in upcoming quarters. At state level, there is resurgence of construction activities in Bihar and AP. Company expects double digit volume growth vs. industry growth of 7-8%. Industry volume grew at 3-3.5% YoY in Q1FY25 vs. 6.6% YoY for UTCEM.
- UTCEM witnessed ~2.4% QoQ drop in cement prices in Q1FY25. In Jul'24, prices have further declined by 1.5% vs. avg of Q1FY25, company expects improvement in cement prices in H2FY25.
- UTCEM expects 300/t (vs. earlier Rs200-300/t) decline in opex/t by FY27 led by i) Improvement in blended cement and cc ratio (led by increased penetration of composite cement), ii) Increase in share of green power (from currently 24% to 60-65% by FY27), iii) Lower logistic costs led by lead distance reduction (assuming reduction by 25kms), iv) Ramping up AFR consumption, and v) Operating leverage on the back of increased capacity and utilization.
- UTCEM has announced the acquisition of Kesoram Industries Ltd's cement business in Q3FY24 through Scheme of Arrangement between UTCEM and Kesoram Industries at an EV of Rs72.6 bn i.e. Rs6.8 bn/ tn (\$81.05/ tn) for capacity of 10.75mtpa. Kesoram has 2 integrated cement units with total capacity of 10.75mtpa (8.5mtpa/ 2.25mtpa clinker backed/ surplus GU) coupled with 0.66mtpa packing plant in Solapur, Maharashtra. CCI's approval has been approved on 19 Mar'24. The company plans to merge with effects on 1 Apr'24 subject to all regulatory approvals and is waiting for approval from statutory and regulatory authorities; expects to reach a conclusion by FY25.
- UTCEM has commissioned 8.7mtpa cement capacity in Q1FY25. With this, the company's total consolidated cement capacity stands at 149.5mtpa (Rs154.5mtpa incl. overseas) in Q1FY25. The expansion program is progressing as per schedule. Work on the remaining locations as part of second phase of 22.6 mtpa announced in June, 2022 is in full swing. Commercial production from these new capacities is expected to go on stream in a phased manner by FY25/FY26..
- Trade share stood at 68% in Q1FY25 vs. 65%/ 68% in Q4FY24/ Q1FY24. Also, the company has increased its UBS outlets to 4,022, 6mt of domestic sales, contributing 20% of trade sales..
- Blended cement in Q1FY25 stood at 71% vs. 69.2%/ 70% in Q4FY24/ Q1FY24. Premium products contributed 24% of trade sales volume in Q1FY25 vs. 23.9%/ 21.7% in Q4FY24/ Q1FY24.

Exhibit 1: Financial snapshot (Rs mn)

Particulars	Q1FY25	Q1FY24	YoY ch (%)	Q4FY24	QoQ (%)
Revenue	1,80,696	1,77,371	2	2,04,189	-12
Cost of Sales ex Depreciation	1,58,728	1,54,370	3	1,71,199	-7
EBITDA	30,393	30,492	0	41,139	-26
<i>Margin %</i>	<i>16.8</i>	<i>17.2</i>	<i>-37bps</i>	<i>20.1</i>	<i>-333bps</i>
Depreciation	8,425	7,491	12	8,149	3
Other Income	1,657	1,737	-5	1,356	22
Interest Expensed	2,556	2,108	21	2,612	-2
Profit from associates	29	37	-22	91	-68
Pretax Profit	21,069	22,631	-7	31,735	-34
Tax	4,471	5,766	-22	8,519	-48
Minority interest	-14	18	-177	5	-398
Net profit	16,641	16,885	-1	23,301	-29

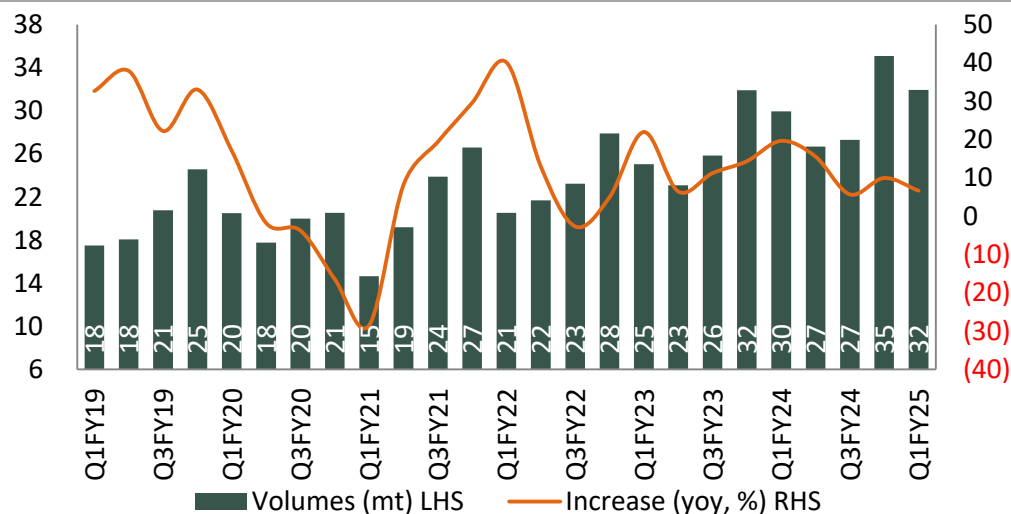
Source: Company

Exhibit 2: Operational matrix

Particulars	Q1FY25	Q1FY24	YoY ch (%)	Q4FY24	QoQ (%)
Volume mt	32	30	7	35	-9
Selling price Rs/t	5,656	5,920	-4	5,821	-2.8
Raw material cost Rs/t	1,009	983	3	1,086	-7
Employee cost Rs/t	231	236	-2	214	8
Power & Fuel Cost Rs/t	1,406	1,629	-14	1,379	2
Freight cost Rs/t	1,309	1,369	-4	1,325	-1
Other expenses Rs/t	749	686	9	644	16
EBITDA Rs/t	951	1,018	-7	1,173	-19

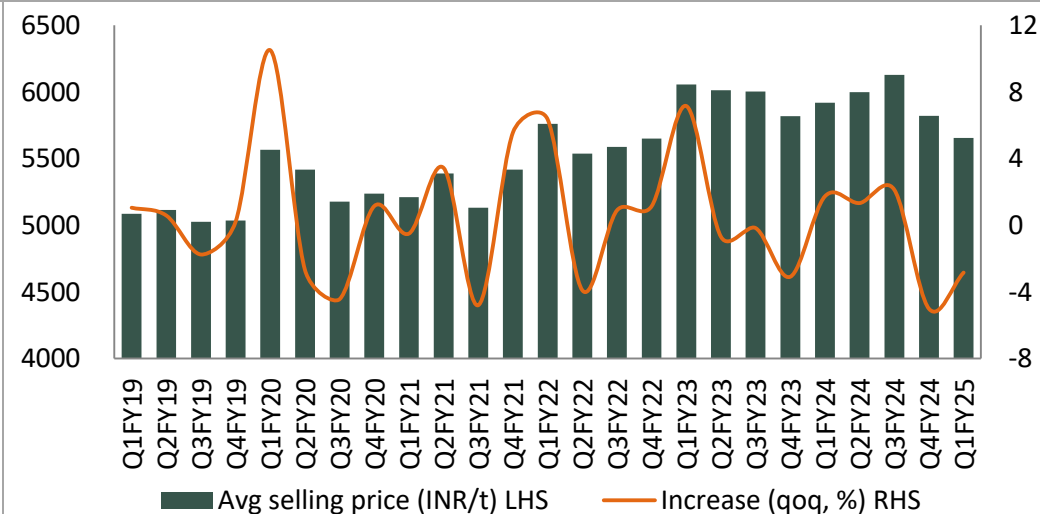
Source: Company

Exhibit 3: Q1FY25 volume up by 7% YoY



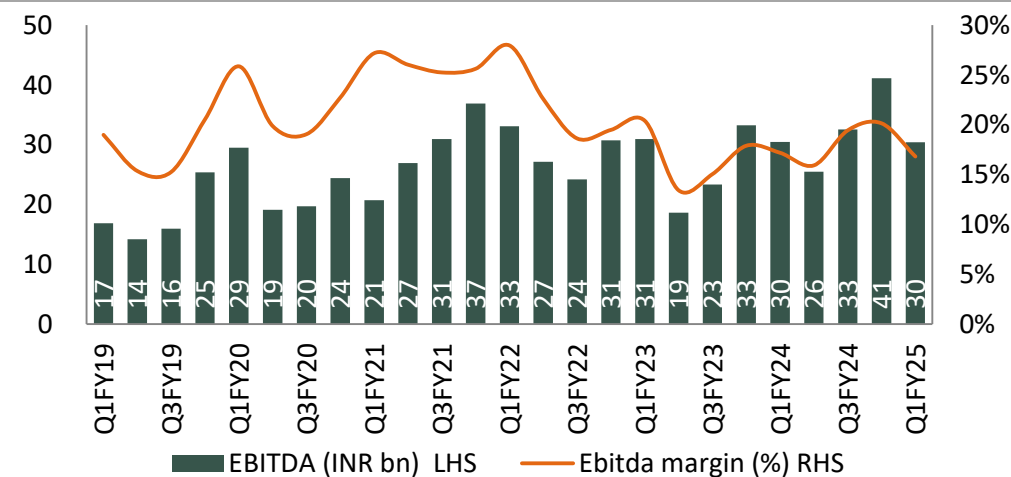
Source : Company

Exhibit 4: Q1FY25 cement price decreased by 3% QoQ



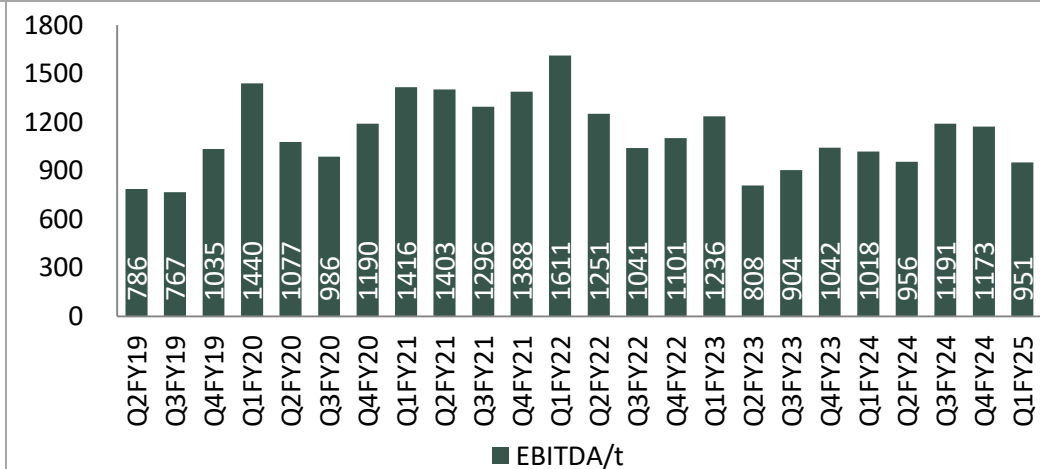
Source : Company

Exhibit 5: EBITDA margin at 17% in Q1FY25



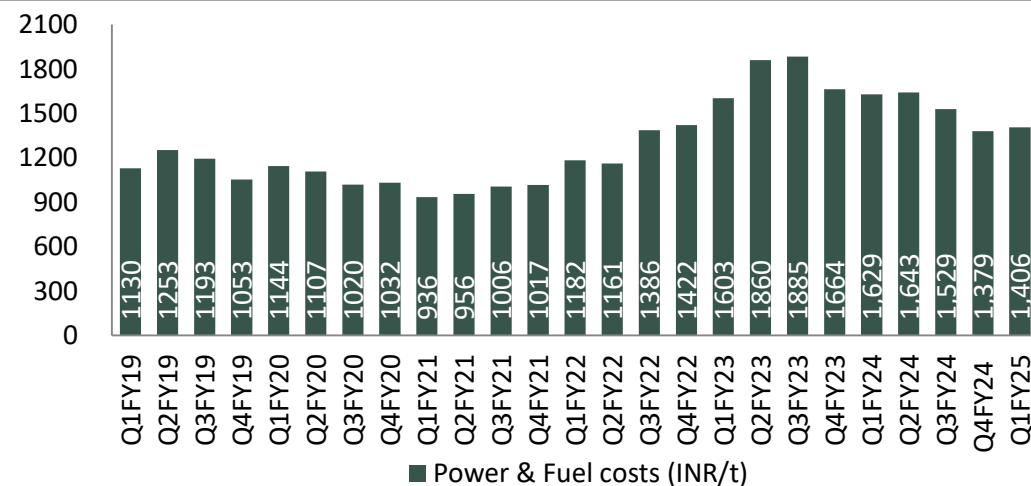
Source : Company

Exhibit 6: Q1FY25 EBITDA/t decreased to Rs951 (Rs/t) YoY



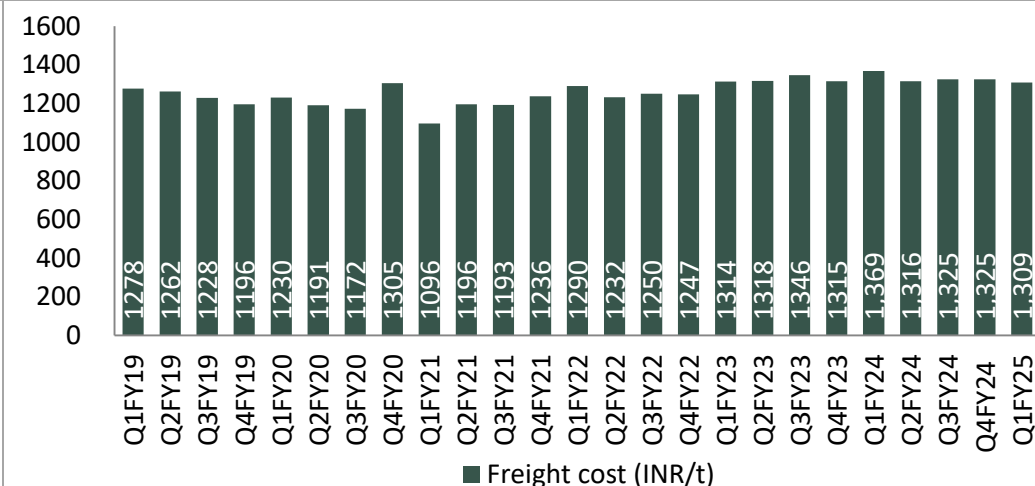
Source : Company

Exhibit 7: Q1FY25 fuel cost declined YoY to Rs1406/t



Source : Company

Exhibit 8: Q1FY25 freight cost flat YoY to Rs1309/t

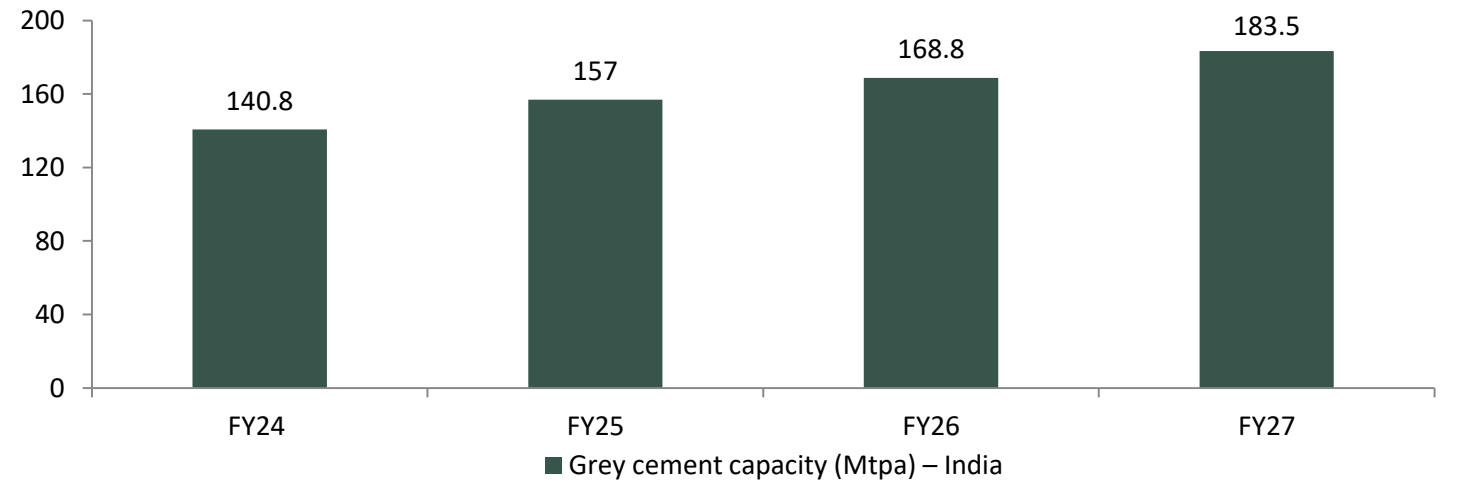


Source : Company

Exhibit 9: Ultratech Capacity Expansion Plan

Zones	Grey Cement Capacity in India (mtpa)					Total Capacity
	Installed Capacity as of FY24	Added In FY25	Planned till FY25	Planned In FY26	Planned till FY27	
North	33.3			3.0	2.7	39.0
Central	28.4		4.5			32.9
East	27.6	3.1	1.2	2.5	6.6	41.0
West	31.1	1.1		3.0		35.2
South	20.5	4.5	1.8	3.3	5.4	35.5
All India	140.8		157.1	168.8	183.5	183.5

source: Company * Excluding Kesoram Industries capacity of 10.75mtpa

Exhibit 10: Capacity Expansion Target till FY27

Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	4,46,477	5,25,988	6,32,400	7,09,081	7,88,357	9,14,697
<i>Change (yoy, %)</i>	6.0	18	20	12	11	16
Operating expenses	(3,30,934)	(4,10,845)	(5,26,201)	(5,79,396)	(6,35,430)	(7,21,812)
EBITDA	1,15,543	1,15,143	1,06,199	1,29,686	1,52,927	1,92,885
<i>Change (yoy, %)</i>	24.5	(0)	(8)	22	18	26
<i>Margin (%)</i>	25.9	21.9	16.8	18.3	19.4	21.1
Depreciation	(26,906)	(27,148)	(28,880)	(31,453)	(39,491)	(43,991)
EBIT	88,637	87,996	77,319	98,233	1,13,436	1,48,894
Interest paid	(14,833)	(9,447)	(8,227)	(9,680)	(8,655)	(8,781)
Other income	7,420	5,078	5,031	6,170	6,420	6,670
Pre-tax profit	81,245	83,644	74,163	94,942	1,11,421	1,47,002
Tax	(25,387)	(11,901)	(23,429)	(24,183)	(27,855)	(36,751)
<i>Effective tax rate (%)</i>	31.2	14.2	31.6	25.5	25.0	25.0
Minority Interest	12.5	100.5	(94.4)	10.4	83.6	110.3
Net profit	61,190	71,844	50,640	71,490	83,649	1,10,362
Exceptional items	22	17	40	220	220	220
Adjusted net profit	50,530	71,827	50,599	69,830	83,429	1,10,142
<i>Change (yoy, %)</i>	(13.0)	42	(30)	38	19	32
EPS	175.1	248.8	175.3	241.9	289.0	381.5
Dividend per share	37.0	38.0	38.0	52.6	63.8	84.1
<i>Dividend Payout %</i>	21.1	15	22	22	22	22

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	4,41,747	5,04,353	5,43,245	6,02,275	6,67,521	7,53,603
Share capital	2,887	2,887	2,887	2,887	2,887	2,887
Reserves & surplus	4,38,860	5,01,466	5,40,359	5,99,388	6,64,634	7,50,716
Total Debt	2,48,193	1,52,155	1,20,056	1,23,179	1,63,179	1,27,355
Other liabilities	67,524	65,605	76,265	84,313	84,313	84,313
Curr Liab & prov	1,04,314	1,16,196	1,73,747	1,97,694	2,16,814	2,46,288
Current liabilities	95,440	1,07,538	1,65,461	1,95,119	2,13,990	2,43,080
Provisions	8,873	8,658	8,286	2,575	2,824	3,208
Total liabilities	4,20,031	3,33,956	3,70,068	4,05,186	4,64,305	4,57,955
Total equity & liabilities	8,61,835	8,38,278	9,13,870	10,08,020	11,32,469	12,12,312
Net fixed assets	5,70,983	6,02,722	6,24,290	6,87,725	7,95,323	8,46,332
Investments	1,09,288	60,661	82,150	88,711	88,711	88,711
Other non-curr assets	-	-	-	-	-	-
Current assets	1,81,564	1,74,895	2,07,429	2,31,584	2,48,435	2,77,268
Inventories	40,180	55,956	66,118	83,297	92,007	1,04,214
Sundry Debtors	25,717	30,716	38,670	42,782	47,565	55,187
Cash and Bank	70,076	53,225	69,862	62,680	60,549	65,355
Loans and advances	45,592	34,998	32,779	42,825	48,313	52,512
Total assets	8,61,835	8,38,278	9,13,870	10,08,020	11,32,469	12,12,312

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	78,576	83,644	74,163	9,422	1,11,421	1,47,002
Depreciation	27,002	27,148	28,880	31,453	39,491	43,991
Tax paid	(12,910)	(15,549)	(11,243)	(16,505)	(27,855)	(36,751)
Chg in working capital	23,289	(4,730)	(3,370)	(4,811)	138	5,446
Other operating activities	9,072	2,320	2,255	4,827	2,235	2,112
Cash flow from operations (a)	1,25,030	92,832	90,685	1,08,975	1,25,430	1,61,800
Capital expenditure	(18,414)	(56,062)	(61,056)	(88,841)	(1,15,000)	(95,000)
Chg in investments	(70,949)	76,888	(13,484)	(655)	-	-
Other investing activities	773	1,744	2,669	1,614	6,420	6,670
Cash flow from investing (b)	(88,590)	22,570	(71,871)	(87,881)	(1,08,581)	(88,331)
Equity raised/(repaid)	138	(782)	(1,018)	(825)	-	-
Debt raised/(repaid)	(23,965)	(1,01,711)	4,529	3,299	40,000	(35,824)
Dividend (incl. tax)	(3,748)	(10,650)	(10,913)	(10,944)	(18,403)	(24,280)
Chg in minorities						
Other financing activities	(15,989)	(11,837)	(8,909)	(10,787)	(8,655)	(8,781)
Cash flow from financing (c)	(43,565)	(1,24,979)	(16,310)	(19,257)	12,942	(68,885)
Net chg in cash (a+b+c)	(7,125)	(9,577)	2,504	1,838	29,791	4,585

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	1,530.4	1,747	1,882	2,086	2,312	2,611
Adj EPS (Rs)	175.1	248.8	175.3	241.9	289.0	381.5
Adj EPS growth (%)	-13.0	42	-30	38	19	32
EBITDA margin (%)	25.9	21.9	16.8	18.3	19.4	21.1
Pre-tax margin (%)	18.2	15.9	11.7	13.4	14.1	16.1
Net Debt/Equity (x)	0.4	0.2	0.1	0.1	0.2	0.1
ROCE (%)	12.1	12	11	13	13	16
ROE (%)	12.1	15	10	12	13	16

DuPont Analysis

Asset turnover (x)	0.5	0.6	0.7	0.7	0.7	0.8
Leverage factor (x)	2.0	1.8	1.7	1.7	1.7	1.6
Net margin (%)	11.3	13.7	8.0	9.8	10.6	12.0

Working Capital & Liquidity ratio

Inventory days	33	39	38	43	43	42
Receivable days	21	21	22	22	22	22
Payable days	105	96	115	123	123	123

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	64.4	45.3	64.3	46.6	39.0	29.5
Price/Book value (x)	7.4	6.4	6.0	5.4	4.9	4.3
EV/Net sales (x)	7.7	6.4	5.2	4.7	4.3	3.6
EV/EBITDA (x)	29.7	29.1	31.1	25.5	21.9	17.2
Dividend Yield (%)	0.3	0.3	0.3	0.5	0.6	0.7

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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