

UltraTech Cement

BUY

Margin to further improve

Summary

Ultratech Cement (UTCEM) Q3FY23 (consolidated) EBITDA came in line with consensus estimate. Volume growth, driven by retail volume was strong at 11% and margin improved QoQ by 161 bps. Stock was weak post the management earning calls, as market was expecting a positive commentary on price hike. Having said this, for Q4FY23 we understand margin could further improve QoQ by 300-400bps, led by weakness in energy cost and operating leverage. As Q4FY23 volume growth is strong and UTCEM is aiming to improve utilization to 95-100% vs 83% in Q3FY23. We have rolled forward TP to FY25E and maintain BUY rating with revised target price of Rs7965 (14x FY25E EV/EBITDA) vs. Rs7455 earlier. Catalyst for stock performance is continuation of price hike & capex boost from union budget.

Key Highlights and Investment Rationale

- Q3FY23 snapshot:** UTCEM Q3FY23 revenue increased by 20% YoY to Rs155bn, led by consolidated volume increasing by 11% YoY. EBITDA at Rs23bn, has improved 25% QoQ. EBITDA margin stood at 15% vs. 19% YoY, 13% QoQ. Prices in the quarter saw a decrease of 0.2% QoQ. Fuel cost increased by 36% YoY contributing to EBITDA/t fall of 13% YoY in Q3FY23.
- Capacity expansion plans maintained:** Company commissioned 5.5mtpa capacity in Q3FY23, taking total capacity in India to 121.35mtpa. Another ~10mtpa capacity is expected to be added in Q4FY23E and this will increase UTCEM's capacity to 131.25mtpa. For second phase of expansion of 22.6mtpa, main plant orders have been placed and civil work started at most sites. Company expects commercial production from these capacities from FY25E/FY26E. Post these expansions UTCEM's global capacity will increase to 159.25mtpa. Company expects to touch 200mtpa capacity by FY30E.

TP **Rs7,965**CMP **Rs6,847**

Potential upside/downside 16%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	(2.3)	7.6	(7.0)
Rel to Sensex	(2.5)	4.9	(10.3)

V/s Consensus

EPS (Rs)	FY23E	FY24E	FY25E
IDBI Capital	178	265	304
Consensus	193	269	311
% difference	(7.6)	(1.6)	(2.3)

Key Stock Data

Bloomberg/Reuters	UTCEM IN/ULTC.BO
Sector	Cement
Shares o/s (mn)	289
Market cap. (Rs mn)	1,976,559
3-m daily avg Trd value (Rs mn)	110.6
52-week high / low	Rs 7,576 / 5,158
Sensex / Nifty	60,942 / 18,119

Shareholding Pattern (%)

Promoters	60.0
FII	14.1
DII	17.4
Public	8.5

Financial snapshot

(Rs mn)

Year	FY21	FY22	FY23E	FY24E	FY25E
Revenue	446,477	525,988	626,534	701,273	751,525
Change (yoy, %)	6	18	19	12	7
EBITDA	115,543	115,143	107,268	142,598	166,948
Change (yoy, %)	24	0	-7	33	17
EBITDA Margin(%)	25.9	21.9	17.1	20.3	22.2
Adj.PAT	55,849	71,827	51,445	76,538	87,659
EPS (Rs)	193	249	178	265	304
Change (yoy, %)	(4)	29	(28)	49	15
PE(x)	35	28	38	26	23
Dividend Yield (%)	1	1	1	1	1
EV/EBITDA (x)	19.1	18.5	19.6	14.6	12.3
RoE (%)	13	15	10	13	14
RoCE (%)	12	12	11	15	17

Source: IDBI Capital Research

Conference call highlights

- Volume growth for Q3FY23 stood at 11% YoY, with domestic volumes improving by 13% YoY. UTCEM expects to deliver double digit volume growth with demand increasing on back of pre-election spending; improvement is expected in rural market due to improved monsoons.
- Trade: non trade ratio stood at 66%; retail demand continues to drive volume growth. Blended cement stood at 68%; company anticipates high OPC demand following surge in infrastructure sector.
- For Q3FY23, there was no significant movement in pricing; realization declines -0.2% QoQ. Q4FY23E prices are expected to remain stable or follow a rising trend; company does not expect any pressure on prices. However, to mitigate cost inflation, prices have to be higher than current prices.
- Blended fuel price for Q3FY23 stood at \$200/t, expecting reduction to \$175-180/t in Q4FY23E. Q3FY23 saw peak fuel cost which was attributable to exhaustion of low cost contracts and Q4FY23E fuel cost should see a decline. Fuel cost on per kcal basis for Q3FY23 stood at Rs2.6/kcal vs. Rs2.5/kcal in Q2FY23.
- Company expects improved EBITDA/t on the back of increasing volume, stable prices, operating leverage advantage and stable/reducing fuel prices.
- Company plans on maintaining fuel inventory of 45-50 days in Q4FY23E.
- Freight cost increased by 2% QoQ due to reimposition of busy season surcharge on rail freight and partially set off by lower lead distance which has dropped from 428km in Q2FY23 to 413km in Q3FY23.
- Increase in interest cost was attributable majorly to accounting of foreign exchange revaluation.
- For second phase of expansion of 22.6mtpa, main plant orders have been placed and civil work started at most sites. Company expects commercial production from these capacities from FY25E/FY26E.
- In Q3FY23, company added capacity of 16MW; further 30MW addition is expected in Q4FY23E; total WHRS capacity to expand to 238MW by end of FY23E.
- Capex of Rs60bn-70bn/year is targeted by FY25E to factor the capacity expansion. Expect cement capacity of 131.25mtpa by FY23E (increase of ~10mtpa in Q4FY23E) with 5.5mtpa commissioned in Q3FY23.
- WC stood at Rs-1.2bn in Q3FY23, on back of high volume and high cash conversion, company is planning on reducing this further in Q4FY23E.

Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q3FY23	Q3FY22	YoY ch (%)	Q2FY23	QoQ (%)
Revenue	1,55,209	1,29,849	20	1,38,927	12
Cost of Sales ex Depreciation	1,39,083	1,12,398	24	1,27,339	9
EBITDA	23,359	24,194	-3	18,667	25
<i>Margin %</i>	<i>15</i>	<i>19</i>	<i>-358bps</i>	<i>13</i>	<i>161bps</i>
Depreciation	7,232	6,742	7	7,079	2
Other Income	1,266	705	80	1,463	-13
Interest Expensed	2,153	1,823	18	2,003	7
Pretax Profit	15,240	16,334	-7	11,047	38
Tax	4,647	-760	NA	3,445	35
Net profit	10,582	17,077	-38	7,557	40

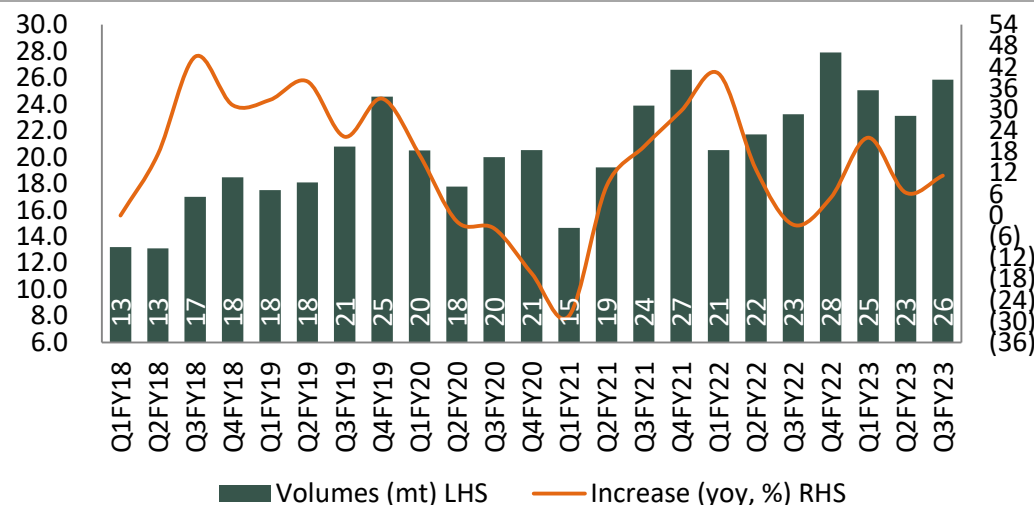
Source: Company

Exhibit 2: Operational matrix

Particulars	Q3FY23	Q3FY22	YoY ch (%)	Q2FY23	QoQ (%)
Volume mt	26	23	11	23	12
Selling price Rs/t	6,004	5,587	7	6,014	-0.2
Raw material cost Rs/t	868	887	-2	873	-1
Employee cost Rs/t	269	277	-3	299	-10
Power & Fuel Cost Rs/t	1,885	1,386	36	1,860	1
Freight cost Rs/t	1,346	1,250	8	1,318	2
Other expenses Rs/t	733	747	-2	856	-14
EBITDA Rs/t	904	1,041	-13	808	12

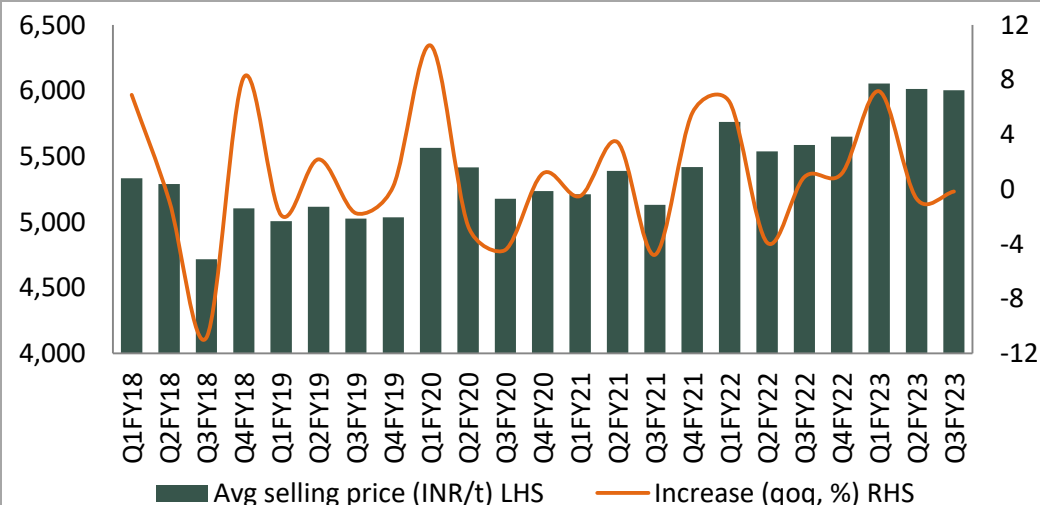
Source: Company

Exhibit 3: Q3FY23 volume up by 11% YoY



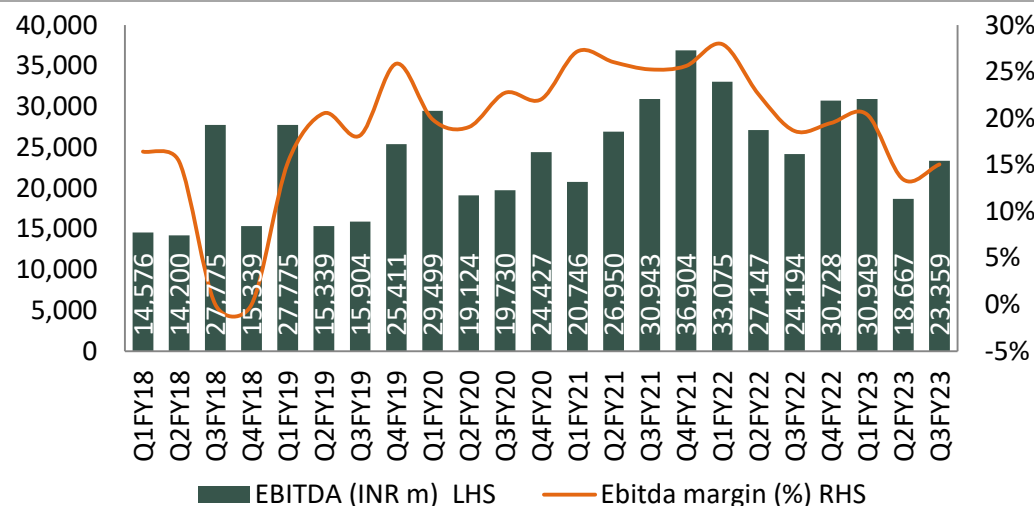
Source : Company

Exhibit 4: Q3FY23 cement price decreased slightly by 0.2% QoQ



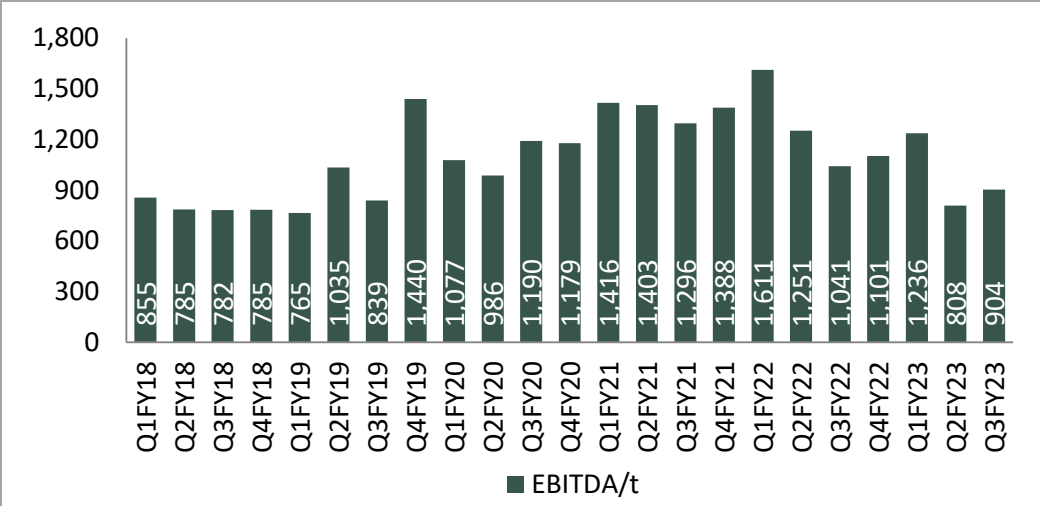
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Exhibit 5: Q3FY23 EBITDA margin expanded to 15%



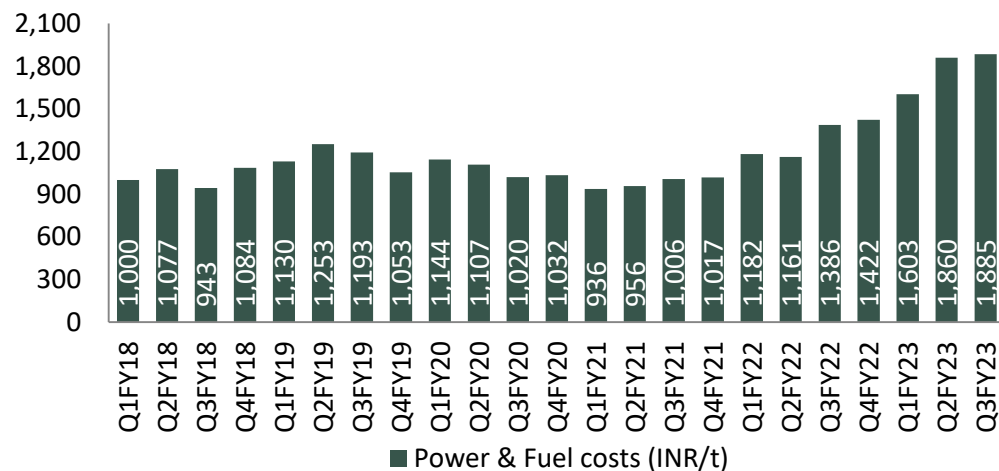
Source : Company

Exhibit 6: Q3FY23 EBITDA/t increased to Rs904 (Rs/t)



Source : Company

Exhibit 7: Q3FY23 fuel cost increased at Rs1885/t



Source : Company

Exhibit 8: Q3FY23 freight cost increased QoQ to Rs1346/t



Source : Company

Exhibit 9: UTCEM Grey Cement Capacity Phase II (mtpa)

Zones	FY23	Phase II expansion	FY25
North	26.5	4.4	30.9
Central	28.4	7.3	35.7
East	26.5	5.2	31.7
West	29.5	0.0	29.5
South	20.5	5.7	26.2
All India capacity	131.25	22.60	153.85

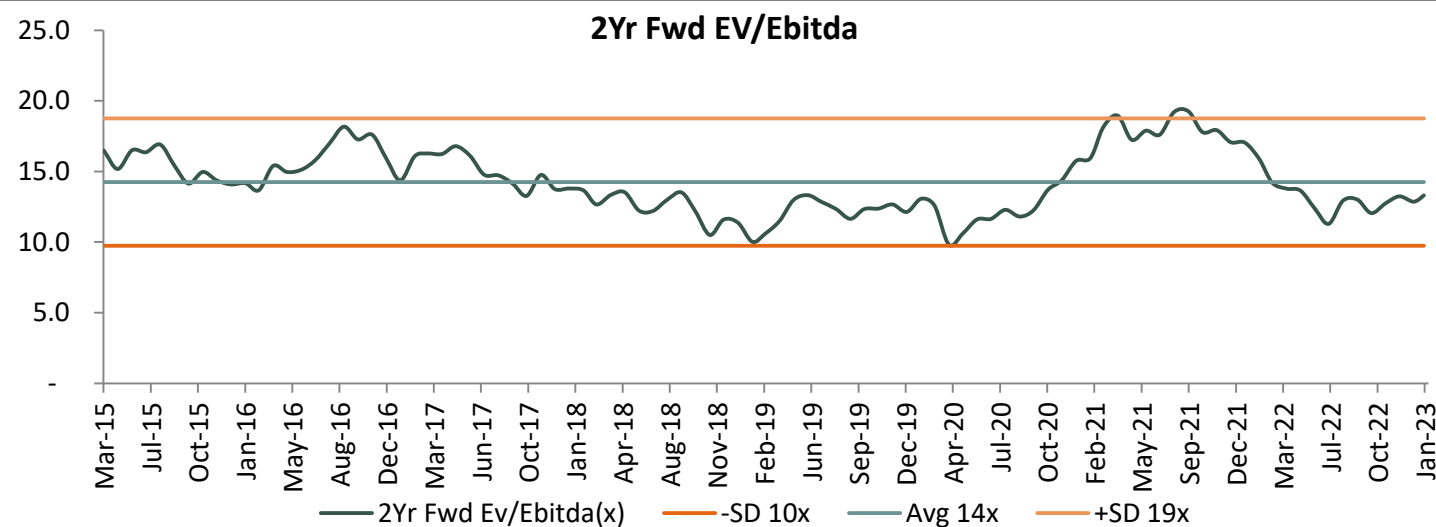
Source: Company

Exhibit 10: Valuation Summary

	FY25E
EBITDA Rs mn	1,66,948
EV/EBIDTA multiple x	14
EV Rs mn	23,37,271
Debt Rs mn	1,52,155
Cash Rs mn	1,13,886
Net Debt Rs mn	38,269
Mcap Rs mn	22,99,002
Shares m	288.7
TP Rs/sh	7,965

Source: IDBI Capital Research

Exhibit 11: Valuation band



Source: IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net sales	421,248	446,477	525,988	626,534	701,273	751,525
<i>Change (yoy, %)</i>	13	6	18	19	12	7
Operating expenses	(328,413)	(330,934)	(410,845)	(519,266)	(558,675)	(584,577)
EBITDA	92,836	115,543	115,143	107,268	142,598	166,948
<i>Change (yoy, %)</i>	37	24	0	-7	33	17
<i>Margin (%)</i>	22.0	25.9	21.9	17.1	20.3	22.2
Depreciation	(27,022)	(26,906)	(27,148)	(29,101)	(29,643)	(30,185)
EBIT	65,814	88,637	87,996	78,167	112,955	136,763
Interest paid	(19,857)	(14,833)	(9,447)	(8,962)	(7,670)	(7,259)
Other income	6,478	7,420	5,078	5,278	5,528	-
Pre-tax profit	52,435	75,904	83,627	74,483	110,814	129,503
Tax	5,682	(25,387)	(11,901)	(23,090)	(34,352)	(41,937)
<i>Effective tax rate (%)</i>	(10.8)	33.4	14.2	31.0	31.0	32.4
Minority Interest	(43.8)	12.5	100.5	51.4	76.5	93.3
Net profit	58,073	50,530	71,827	51,445	76,538	87,659
Exceptional items	-	(5,319)	-	-	-	-
Adjusted net profit	58,073	55,849	71,827	51,445	76,538	87,659
<i>Change (yoy, %)</i>	139	(4)	29	(28)	49	15
EPS	201	193	249	178	265	304
Dividend per share	13	37	38	36	53	65
<i>Dividend Payout %</i>	6	19	15	20	20	21

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Shareholders' funds	391,155	441,747	504,353	545,509	606,739	681,489
Share capital	2,886	2,887	2,887	2,887	2,887	2,887
Reserves & surplus	388,269	438,860	501,466	542,622	603,852	678,603
Total Debt	264,085	248,193	152,155	136,939	123,245	110,921
Other liabilities	55,131	67,524	65,605	65,605	65,605	65,605
Curr Liab & prov	82,925	104,314	116,196	153,719	157,116	164,400
Current liabilities	75,027	95,440	107,538	142,265	145,409	152,150
Provisions	7,898	8,873	8,658	11,454	11,707	12,250
Total liabilities	402,141	420,031	333,956	356,263	345,966	340,926
Total equity & liabilities	793,371	861,835	838,278	901,793	952,803	1,022,606
Net fixed assets	579,020	570,983	602,722	633,622	663,979	703,793
Investments	106,715	159,288	110,294	110,294	110,294	110,294
Other non-curr assets	-	-	-	-	-	-
Current assets	107,637	131,564	125,261	157,877	178,530	208,518
Inventories	41,483	40,180	55,956	70,671	75,636	78,304
Sundry Debtors	22,383	25,717	30,716	39,480	44,190	47,356
Cash and Bank	5,392	20,076	3,592	6,425	14,892	36,924
Loans and advances	12,586	20,143	18,788	22,958	24,308	26,078
Total assets	793,371	861,835	838,278	901,793	952,803	1,022,606

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	52,435	75,904	83,627	74,483	110,814	129,503
Depreciation	27,022	27,002	27,148	29,101	29,643	30,185
Tax paid	(8,914)	(12,910)	(15,549)	(23,090)	(34,352)	(41,937)
Chg in working capital	4,503	23,289	(4,730)	7,741	(8,789)	(672)
Other operating activities	13,987	9,072	2,320	3,684	2,141	1,481
Cash flow from operations (a)	89,020	125,030	92,832	91,919	99,457	124,338
Capital expenditure	(17,037)	(18,414)	(56,062)	(60,000)	(60,000)	(70,000)
Chg in investments	(26,907)	(71,357)	61,610	-	-	-
Other investing activities	1,210	773	1,744	5,278	5,528	5,778
Cash flow from investing (b)	(42,094)	(88,590)	22,570	(54,722)	(54,472)	(64,222)
Equity raised/(repaid)	27	70	44	-	-	-
Debt raised/(repaid)	(27,164)	(25,646)	(103,938)	(15,215)	(13,694)	(12,325)
Dividend (incl. tax)	(22,744)	(18,056)	(20,259)	(19,251)	(22,977)	(25,947)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(31)	68	(825)	-	-	-
Cash flow from financing (c)	(49,911)	(43,565)	(124,979)	(34,466)	(36,671)	(38,271)
Net chg in cash (a+b+c)	(2,005)	14,683	(16,484)	2,833	8,467	22,032

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Book Value (Rs)	1,355	1,530	1,747	1,890	2,102	2,361
Adj EPS (Rs)	201.2	193.5	248.8	178.2	265.1	303.7
Adj EPS growth (%)	128	-4	29	-28	49	15
EBITDA margin (%)	22.0	25.9	21.9	17.1	20.3	22.2
Pre-tax margin (%)	12	17	16	12	16	17
Net Debt/Equity (x)	0.7	0.5	0.3	0.2	0.2	0.1
ROCE (%)	9.4	12.1	11.9	10.6	14.6	16.5
ROE (%)	15.9	13.4	15.2	9.8	13.3	13.6

DuPont Analysis

Asset turnover (x)	0.5	0.5	0.6	0.7	0.8	0.8
Leverage factor (x)	2.1	2.0	1.8	1.7	1.6	1.5
Net margin (%)	13.8	12.5	13.7	8.2	10.9	11.7

Working Capital & Liquidity ratio

Inventory days	36	33	39	41	39	38
Receivable days	19	21	21	23	23	23
Payable days	83	105	96	100	95	95

Valuations

Year-end: March	FY20	FY21	FY22	FY23E	FY24E	FY25E
PER (x)	34	35	28	38	26	23
Price/Book value (x)	5.1	4.5	3.9	3.6	3.3	2.9
EV/Net sales (x)	5	5	4	3	3	3
EV/EBITDA (x)	24	19	18	20	15	12
Dividend Yield (%)	0	1	1	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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