

UltraTech Cement

HOLD

Strong quarter

Summary

Ultratech Cement (UTCEM) Q1FY23 (consolidated) EBITDA beat our/ consensus estimates by 15%/ 16%. Beat in the number is driven by higher than expected revenue due to improvement in volume (up 22% YoY) and realization (+7% QoQ). Despite beat, we have maintained EBITDA for FY23/24E, as demand and pricing may see some softening on account of monsoon. Due to higher power and energy costs, EBITDA/t could remain under pressure which did improved QoQ in Q1FY23. We retain HOLD rating with unchanged TP at Rs6,790. Company has announced its expansion plan of 22.6mtpa and expects capacity of 153.85mtpa by FY25. Sustenance of demand and continuation of hiked price is the key catalyst for stock performance.

Key Highlights and Investment Rationale

- Q1FY23 snapshot:** UTCEM Q1FY23 revenue increased by 28% YoY to Rs152bn, with consolidated volume increasing by 22% YoY and ASP up by 5% YoY. EBITDA at Rs30.9bn, down 6% YoY is led by cost inflation. EBITDA margin stood at 20% vs. 28% YoY, 19% QoQ. Prices in the quarter saw an increase of 7% QoQ; with double digit increase in North and Central; 5-6% increase from West and East and flattish growth in Southern markets.
- Robust capacity expansion plans:** Ongoing capacity expansion of 19.9mtpa is expected to be completed by FY23. Company announced Phase II expansion of 22.6mtpa with capex of Rs128bn to be done through internal accruals. This expansion is expected to generate IRR of >15% (EBITDA/t of Rs1400-1500). Both phases of capacity expansions are expected to take Ultratech's all India capacity to 153.85mtpa by FY25; post which expansion is planned to take capacity to ~200mtpa by FY30.

TP **Rs6,790**
CMP **Rs6,455**

Potential upside/downside 5%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	19.3	(4.3)	(13.8)
Rel to Sensex	12.1	(2.3)	(19.7)

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	250	317
Consensus	216	284
% difference	15.6	11.8

Key Stock Data

Bloomberg/Reuters	UTCEM IN/ULTC.BO
Sector	Cement
Shares o/s (mn)	289
Market cap. (Rs mn)	1,863,228
3-m daily avg Trd value (Rs mn)	178.0
52-week high / low	Rs 8,267 / 5,158
Sensex / Nifty	56,072 / 16,719

Shareholding Pattern (%)

Promoters	60.0
FII	13.1
DII	18.2
Public	8.7

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	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)	32	33	26	26	20
Dividend Yield (%)	0	1	1	1	1
EV/EBITDA (x)	22.8	18.0	17.4	17.5	14.2
RoE (%)	17	13	15	14	15
RoCE (%)	10	12	12	12	14

Source: IDBI Capital Research

Conference call highlights

- Cement demand for May'22 was impacted due to inflationary trends and lower labour availability, but has seen momentum in Jun'22 as pre-monsoon construction activities are being picked up. Company expects demand to grow at ~8% CAGR in next 5 years, with short term tailwinds being pre-election spending.
- Demand is expected to surpass capacity additions as demand outlook stays positive on the back of increased government spending and positive outlook on real estate industry.
- Prices in the quarter saw an increase of 7% QoQ with double digit increase in North and Central; 5-6% increase from West and East and flattish growth in Southern markets. Jun'22 exit prices were 3-5% lower than Q1FY23 avg led by lower demand in monsoons. Company expects near term softening of prices but is confident of surpassing peers in Q2FY23 in terms of realization.
- On cost front, in Q1FY23, company has been facing inflationary pressures due to rising fuel and energy costs which were partially mitigated by improvement in efficiency.
- Management expects cost pressures to continue for the next 2-3 quarters. Petcoke prices have seen some softening (-10% MoM); coal prices are also expected to see similar downward trend.
- Company plans to consume 13-15mt of fuel from FY23 and is planning its efficient procurement strategy accordingly.
- Fuel mix for Q1FY23 was petcoke/imported coke/domestic coal at 52%/37%/5%. Fuel inventory stood at ~50 days as on end of Q1FY23. Company mentioned that they cannot give guidance on how cost is expected to move but remains confident that it will move upwards.
- The ongoing capacity expansion of 19.9mtpa is expected to be completed by FY23. This is expected to commission as 1.3/ 9.6/ 5.8mtpa in Q2FY23/ Q3FY23/ Q4FY23. (3.2mtpa already commissioned in FY22)
- Apart from above, company announced Phase II expansion of 22.6mtpa with capacity additions in North/ Central/ South/ East of 4.4/ 7.3/ 5.7/ 5.2mtpa expected to be completed by FY25. The capex for this expansion is Rs128bn which is expected to be done through internal accruals. This expansion is anticipated to generate IRR of >15% (FY26: EBITDA/t at ~Rs1400-1500)
- Both phases of capacity expansions are expected to take Ultratech's all India capacity to 153.85mtpa by FY25; post which company is planning expansion up to ~200mtpa by FY30.

Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q1FY23	Q1FY22	YoY ch (%)	Q4FY22	QoQ (%)
Revenue	1,51,640	1,18,298	28	1,57,673	-4
Cost of Sales ex Depreciation	1,27,643	91,822	39	1,33,979	-5
EBITDA	30,949	33,075	-6	30,728	1
<i>Margin %</i>	20	28	-755bps	19	92bps
Depreciation	6,952	6,598	5	7,034	-1
Other Income	1,087	2,049	-47	924	18
Interest Expensed	2,158	3,261	-34	2,063	5
Pretax Profit	22,926	25,265	-9	22,555	2
Tax	7,114	8,269	-14	-1,980	NA
Net profit	15,841	17,026	-7	24,605	-36

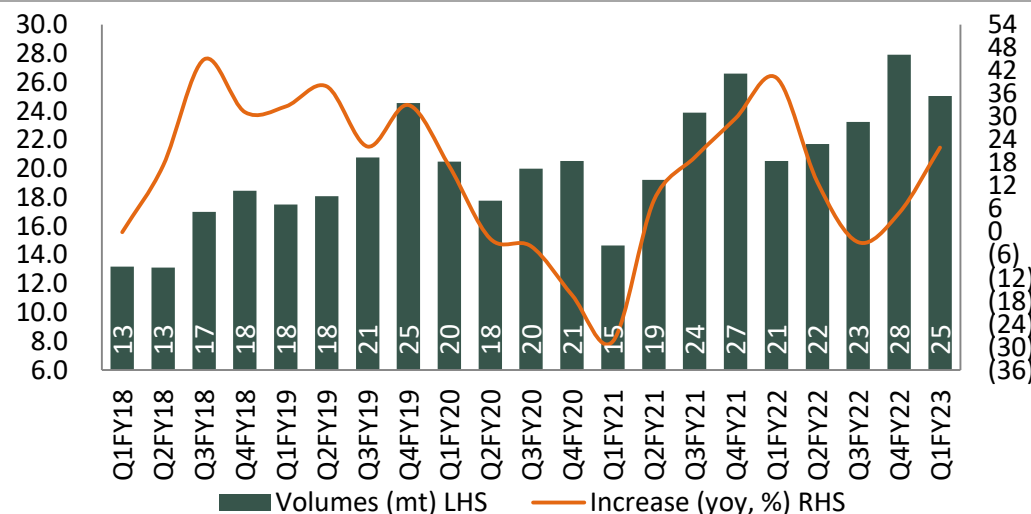
Source: Company

Exhibit 2: Operational matrix

Particulars	Q1FY23	Q1FY22	YoY ch (%)	Q4FY22	QoQ (%)
Volume mt	25	21	22	28	-10
Selling price Rs/t	6,056	5,762	5	5,651	7
Raw material cost Rs/t	912	707	29	976	-7
Employee cost Rs/t	254	285	-11	225	13
Power & Fuel Cost Rs/t	1,603	1,182	36	1,422	13
Freight cost Rs/t	1,314	1,290	2	1,247	5
Other expenses Rs/t	737	687	7	680	8
EBITDA Rs/t	1,236	1,611	-23	1,101	12

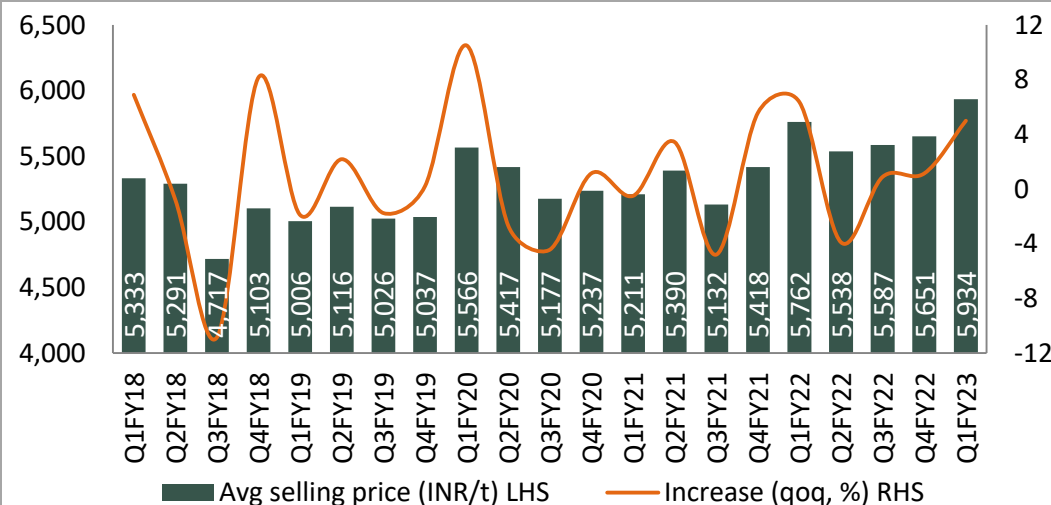
Source: Company

Exhibit 3: Q1FY23 volume up by 22% YoY



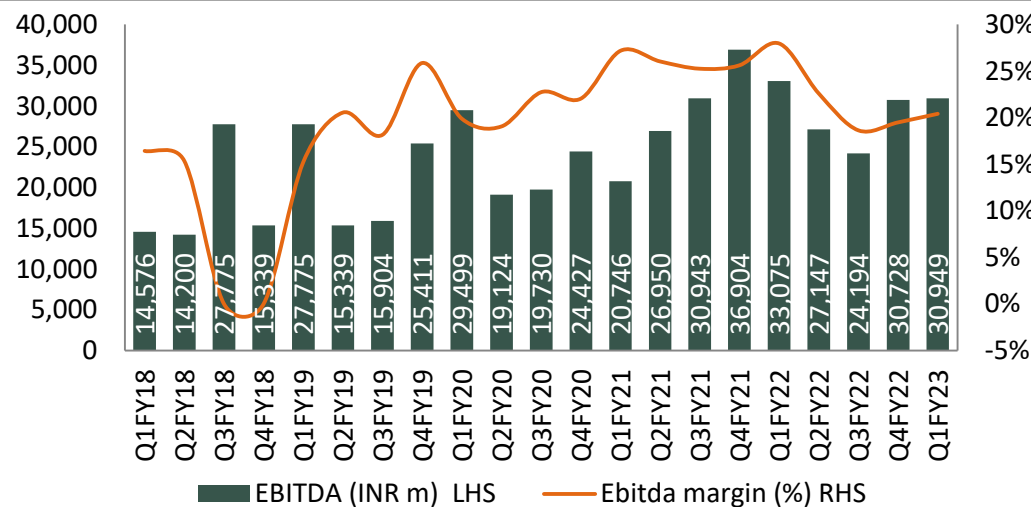
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Exhibit 4: Q1FY23 cement price increased by 5% QoQ



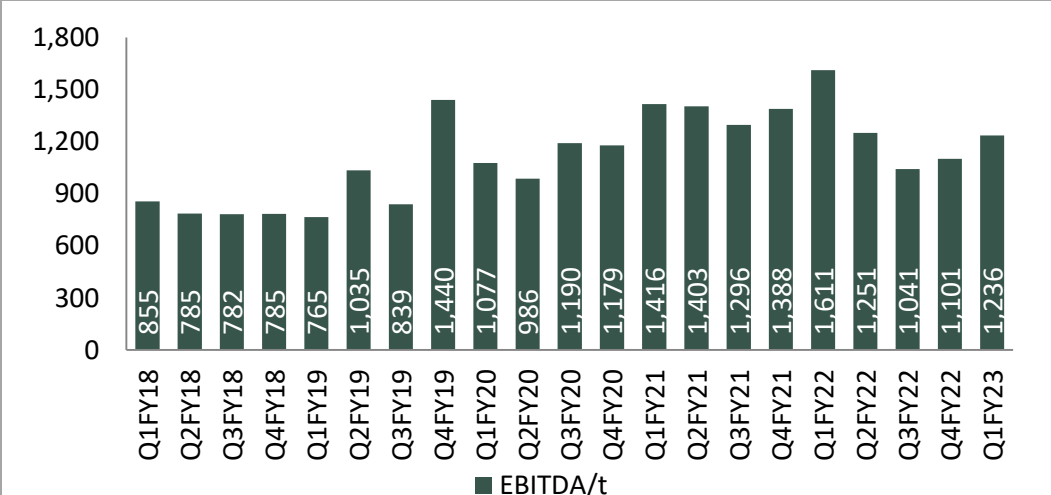
Source : Company

Exhibit 5: Q1FY23 EBITDA margin maintained at 20%



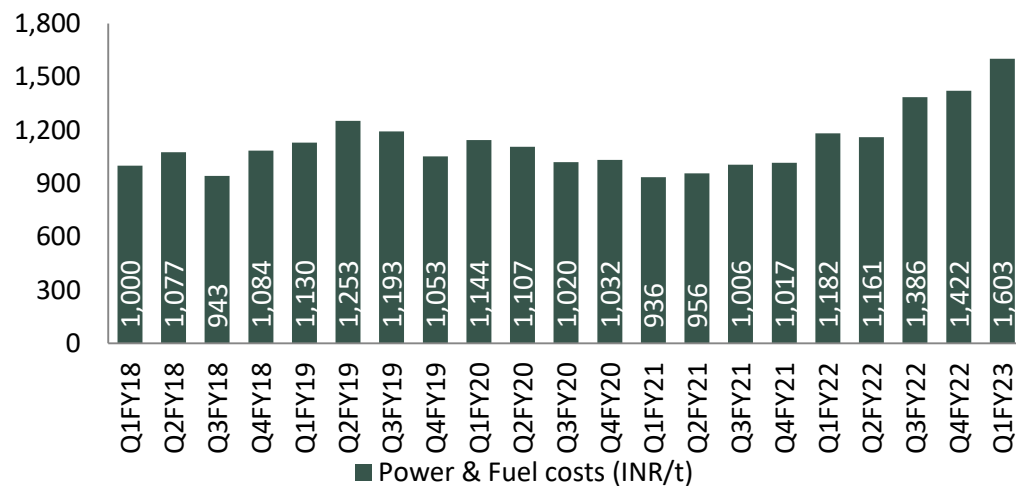
Source : Company

Exhibit 6: Q1FY23 EBITDA/t at Rs1236 (Rs/t)



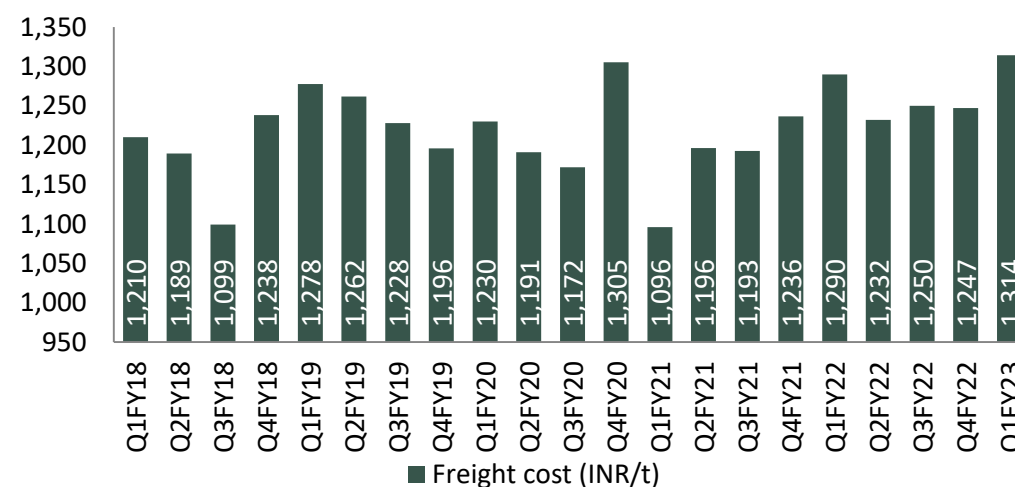
Source : Company

Exhibit 7: Q1FY23 fuel cost at Rs1603/t



Source : Company

Exhibit 8: Q1FY23 freight cost grew 5% QoQ (Rs/t)



Source : Company

Exhibit 9: All India Grey Cement Capacity (mtpa)

Zones	Existing capacity	Phase I expansion	FY23	Phase II expansion	FY25
North	23.8	2.7	26.5	4.4	30.9
Central	25.3	5.1	28.4	7.3	35.7
East	17.4	10.3	26.5	5.2	31.7
West	27.7	1.8	29.5	0.0	29.5
South	20.5	0.0	20.5	5.7	26.2
All India capacity	114.60	19.90	131.25	22.60	153.85

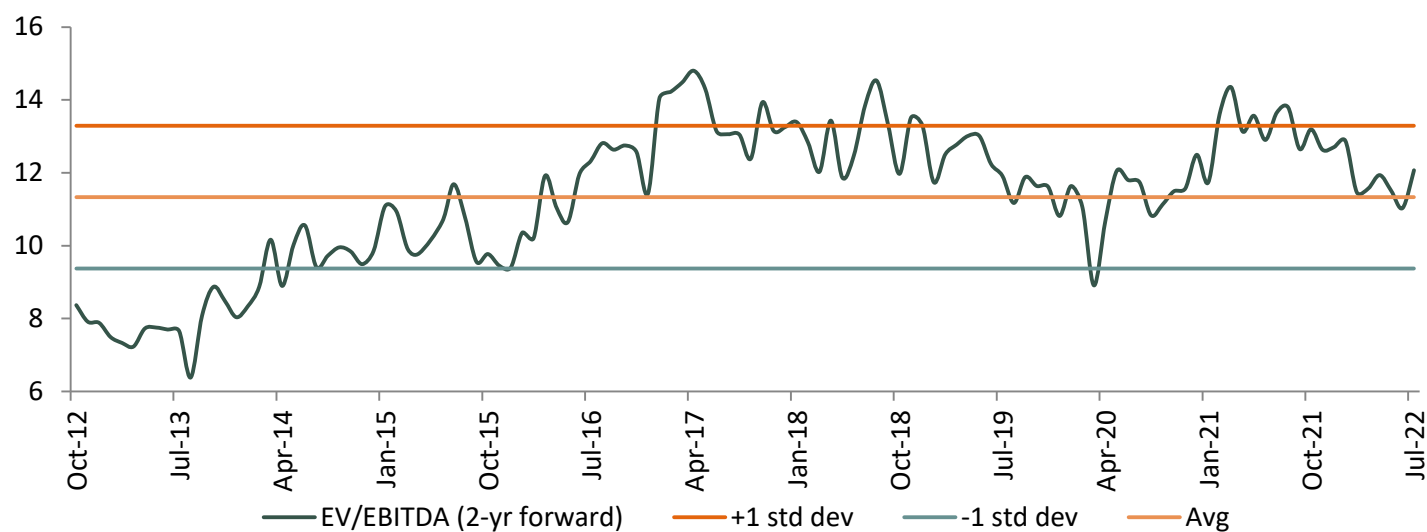
Source : Company

Exhibit 10: 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
TP Rs/sh	6,790

Source: IDBI Capital Research

Exhibit 11: Valuation band (EV/EBITDA)



Source: Bloomberg

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	373,792	421,248	446,477	525,988	597,791	671,440
<i>Change (yoy, %)</i>	19	13	6	18	14	12
Operating expenses	(305,911)	(328,413)	(330,934)	(410,845)	(485,128)	(538,233)
EBITDA	67,881	92,836	115,543	115,143	112,663	133,207
<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)
EBIT	46,483	65,814	88,637	87,996	85,254	105,287
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
Pre-tax profit	35,378	52,435	75,904	83,627	84,197	106,836
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)
Net profit	24,347	58,161	50,505	71,626	72,146	91,544
Exceptional items	-	-	(5,319)	-	-	-
Adjusted net profit	24,347	58,161	55,824	71,626	72,146	91,544
<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	FY22	FY23E	FY24E
Shareholders' funds	337,507	391,155	441,747	504,353	558,279	626,705
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
Total Debt	276,398	264,085	248,193	152,155	118,429	52,314
Other liabilities	68,521	55,131	67,524	65,605	65,605	65,605
Curr Liab & prov	82,827	82,925	104,314	116,196	143,613	151,367
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
Total liabilities	427,746	402,141	420,031	333,956	327,647	269,286
Total equity & liabilities	765,374	793,371	861,835	838,278	885,968	896,124
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	-	-	-	-	-	-
Current assets	114,378	107,637	131,564	125,261	150,360	173,436
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
Total assets	765,374	793,371	861,835	838,278	885,968	896,124

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	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)
Cash flow from operations (a)	60,251	89,020	125,030	92,832	108,201	113,737
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
Cash flow from investing (b)	11,138	(42,094)	(88,590)	22,570	(44,672)	(9,422)
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)	-	-
Cash flow from financing (c)	(67,568)	(49,911)	(43,565)	(124,979)	(58,475)	(93,446)
Net chg in cash (a+b+c)	3,821	(2,005)	14,683	(16,484)	5,199	11,052

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	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)	73	32	33	26	26	20
Price/Book value (x)	6.2	4.7	4.2	3.7	3.3	3.0
EV/Net sales (x)	5	5	5	4	3	3
EV/EBITDA (x)	30	23	18	17	17	14
Dividend Yield (%)	0	0	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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