

# UltraTech Cement Ltd

BUY

CMP Rs3,529

Target Rs4,413

Upside 25%

<b>Highlights</b>	<ul style="list-style-type: none"> <li>✓ <b>Volumes:</b> Total volumes for Q4FY20 stood at 21.4 MT (est. of 21.7 MT), down by 15.7% y/y due to lockdown measures. Sharp jump in utilization level of Century assets to ~83% during the quarter came in as a positive surprise.</li> <li>✓ <b>Operating performance:</b> EBITDA was Rs 24.43 bn (-3.9% y/y) – in line with our estimates of Rs 24.4 bn. EBITDA/te stood at Rs 1,139, improving by 14% y/y led by stable pricing scenario and reduction in clinker production cost (which declined by 13.7% y/y). EBITDA/te for Century assets (ex-one time cost) was Rs 575 (flat y/y) vis-à-vis our estimates of Rs 595.</li> <li>✓ <b>Capex:</b> Expected outgo for FY21 stands at Rs 10 bn while Greenfield expansion of 2.2 MT in Orissa would be deferred</li> <li>✓ <b>De-leveraging:</b> UTCEM reduced net debt by Rs 52.5 bn during FY20 with current net debt/EBITDA at 1.95x vis-à-vis 3.1x in FY19.</li> </ul>
<b>Our View</b>	<ul style="list-style-type: none"> <li>✓ Notwithstanding the fact that current utilization level of 60-70% for UTCEM is encouraging, we believe that there is limited room for further improvement of utilization level in the medium term as labour migration and arrival of monsoon would drag demand growth. Going ahead, we estimate volumes to witness 12.4% de-growth y/y in FY21 and a growth of 25.7% y/y in FY22.</li> <li>✓ EBITDA/te at Rs 1,128 was the highest for UTCEM since inception and was attributable to sturdy pricing scenario and soft energy costs. Although further decline in input cost augurs well, we expect pricing scenario to come under pressure once normalcy in operations is attained for the industry. Consequently, we estimate EBITDA/te to hover around Rs 1075 and Rs 1079 for FY21 and FY22 respectively.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>✓ Currently UTCEM is trading at EV/EBITDA at ~11.4x and EV/te of \$134 on FY22E. Taking an average of EV/EBITDA and DCF derived values, we have a target of Rs 4,413/share (implied EV/EBITDA multiple of 14x on FY22E).</li> </ul>
<b>Risk to our call</b>	<ul style="list-style-type: none"> <li>✓ In a scenario of second wave of Covid-19 spread, demand and pricing outlook would be severely hampered.</li> </ul>

## Exhibit 1: Result table

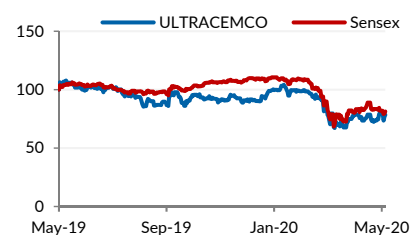
Y/e 31 Mar (Rs mn)	Q4 FY20	Q3 FY20	q/q (%)	Q4 FY19	y/y (%)
Revenue	107,456	103,538	3.8	123,706	(13.1)
EBITDA	24,427	19,730	23.8	25,410	(3.9)
EBITDA Margin (%)	22.7	19.1	368 bps	20.5	219 bps
Other Income	1,979	1,682	17.7	1,306	51.6
Depreciation	6,724	6,730	(0.1)	6,409	4.9
Interest	5,048	4,708	7.2	5,046	0.1
PBT	14,620	9,974	46.6	15,263	(4.2)
Tax	(17,774)*	2,862	-	4,605	-
Reported PAT	32,428	7,119	355.5	10,643	204.7

\*net reversal of DTL to the extent of Rs 21.1 bn  
Source: Company, YES Sec - Research

## Stock data (as on May 20, 2020)

Sensex:	30,819
52 Week h/l (Rs)	4905 / 2910
Market cap (Rs/USD mn)	1018414 / 13436
Outstanding Shares (mn)	289
6m Avg t/o (Rs mn):	2,410
Div yield (%):	0.3
Bloomberg code:	UTCEM IN
NSE code:	ULTRACEMCO

## Stock performance



(%)	1M	3M	1Y
Absolute return	0.3	(20.3)	(25.9)

## Shareholding pattern (As of Mar'20 end)

Promoter	60.0%
FII+DII	30.6%
Others	8.6%

## Δ in earnings estimates

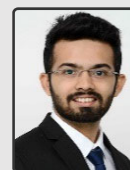
Rs bn	FY21E	FY22E
EBITDA (New)	78	98
EBITDA (Old)	103	116
% change	(24.7)	(15.3)

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## Exhibit 2: Per te analysis (consolidated)

(in Rs)	Q4 FY20	Q3 FY20	q/q (%)	Q4 FY19	y/y (%)
Volumes (in MT)	21.44	20.90	2.6	25.43	(15.7)
Net realization	5,012	4,954	1.2	4,865	3.0
Raw Material cost	678	856	(20.7)	913	(25.7)
Employee cost	305	297	3.0	222	37.4
Power and fuel cost	988	976	1.2	1,017	(2.8)
Freight cost	1,249	1,121	11.4	1,155	8.2
Other expenses	652	760	(14.3)	558	16.7
<b>EBITDA</b>	<b>1,139</b>	<b>944</b>	<b>20.7</b>	<b>999</b>	<b>14.0</b>

Source: Company, YES Sec - Research

## CONFERENCE CALL AND PRESENTATION HIGHLIGHTS:

- ✓ **Asset Integration:** UltraTech Nathdwara (erstwhile Binani cement) operated at EBITDA/te of ~Rs 1,250 during the year as compared to Rs 100 when the assets were acquired. Company has commenced work for installation of 11 MW WHRS for further improvement in margin profile of UNCL. On the other hand, UTCEM operated century assets at 83% with EBITDA/te of Rs 575 during the quarter despite COVID crisis with 65% of sales through UltraTech brand. UTCEM plans to achieve 84% brand transitioning by Q3FY21E.
- ✓ **Demand:** Volume de-growth of 15.7% for the quarter was broadly in line with industry trend. Although utilization level on April 1<sup>st</sup> was 0%, current run-rate at 60-70% is encouraging. Region wise, UTCEM's plants in Eastern market have already peaked out while demand in western market continues to be challenging due to severe spread of COVID-19. Majority of the demand is being generated in rural segment with current trade segment mix of company at 90%. However, exodus of labour once lockdown is lifted and onset of monsoon would remain key overhangs for demand outlook in medium term.
- ✓ **Pricing:** Industry witnessed 2.5-3% pricing improvement sequentially with North/Central/West enjoying very strong prices.
- ✓ **Input cost:** Average fuel prices for the quarter dropped by 13% y/y due to reduction in petcoke prices. Pet coke consumption price for Q4FY20 stood at \$70/te as compared to \$80/te. After a sudden spike of spot prices to \$78/te, current price is hovering around \$60/te - benefit of which would be visible in Q2FY21E. Drastic fall in crude oil prices have not been passed on to the industry yet. Further, railways extended the period for exemption of busy season surcharge resulting into reduction in freight costs during the quarter.
- ✓ **Capex:** Outgo during FY20 stood at Rs 16 bn while expected capex for FY21 stands at Rs 10 bn - towards maintenance costs, completion of Bara unit and brownfield expansion in Bihar and West Bengal. Greenfield unit of 2.2 MTPA in Orissa would be deferred.
- ✓ **Capital allocation:** Net debt reduction for the year stood at Rs 52.5 bn with net debt/EBITDA at 1.95x as of Mar 20. Although deleveraging remains the key focus for the company from a capital allocation point of view, it would not shy away from attractive inorganic opportunities.

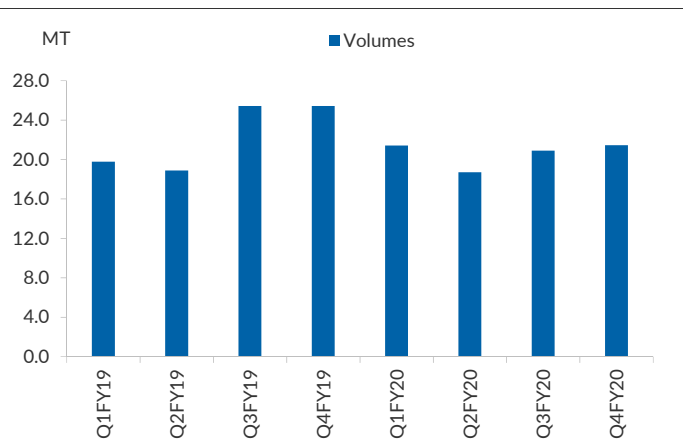
**Exhibit 3: Revision in estimates (consolidated)**

	FY21E		% change	FY22E		% change
	Revised	Old		Revised	Old	
Cement Volumes (MT)	72.15	95.58	(24.5)	90.70	101.96	(11.0)
Net sales (Rs mn)	358,545	485,000	(26.1)	460,679	532,291	(13.5)
EBITDA (Rs mn)	77,574	103,070	(24.7)	97,823	115,528	(15.3)
Realization/te (Rs)	4,969	5,074	(2.1)	5,079	5,221	(2.7)
EBITDA/te (Rs)	1,075	1,078	(0.3)	1,079	1,133	(4.8)

Source: Company, YES Sec – Research

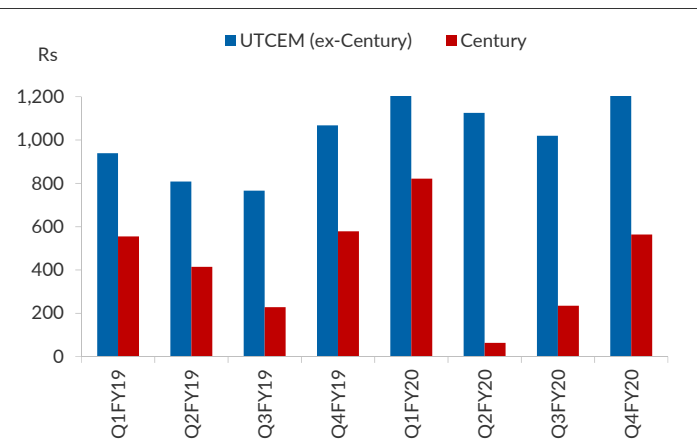
## CHARTS

**Exhibit 4: Volume de-growth of 15.7% y/y due to lockdown measures**



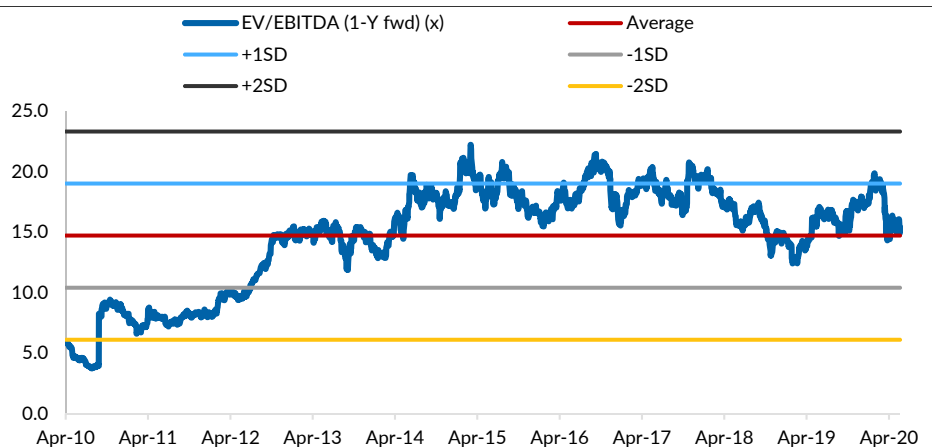
Source: Company, YES Sec – Research

**Exhibit 5: Healthy improvement of 14% y/y in EBITDA/te**



Source: Company, YES Sec – Research

**Exhibit 6: Reasonable valuations leave room for potential upside**



Source: Company, YES Sec – Research

## FINANCIALS

### Exhibit 7: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Revenues	416,088	421,248	358,545	460,679
Growth (%)	32.5	1.2	(14.9)	28.5
EBITDA	73,469	92,836	77,574	97,823
EBITDA margin (%)	17.7	22.0	21.6	21.2
Growth (%)	19.6	26.4	(16.4)	26.1
Depreciation	24,507	27,022	27,534	28,303
Other income	4,634	6,478	4,286	4,290
EBIT	53,597	72,292	54,326	73,811
EBIT margin (%)	12.9	17.2	15.2	16.0
Interest	17,779	19,857	17,035	13,522
PBT	34,685	52,423	37,291	60,289
Tax	10,681	(5,682)	11,483	18,565
Net profit	24,035	58,148	25,808	41,723
NPAT margin (%)	5.8	13.8	7.2	9.1
EPS (Rs)	88	201	89	145
Growth (%)	8.2	129.7	(55.6)	61.7

Source: Company, YES Sec – Research

### Exhibit 8: Balance sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Equity Share Capital	2,746	2,886	2,886	2,886
Reserves	334,760	388,269	410,205	445,670
<b>Total Shareholders' Funds</b>	<b>337,507</b>	<b>391,155</b>	<b>413,091</b>	<b>448,556</b>
<b>Non-current liabilities</b>				
Long term borrowings	206,504	184,234	142,234	96,234
Deferred Tax liabilities	64,114	49,120	49,120	49,120
<b>Current liabilities</b>				
Short term borrowings	36,684	39,851	35,586	42,662
Trade payables	31,597	35,014	29,964	38,891
Other current liabilities	81,113	85,962	88,079	85,811
<b>Total equity and liabilities</b>	<b>765,374</b>	<b>793,371</b>	<b>766,110</b>	<b>769,311</b>
<b>Non-current assets</b>				
Goodwill	62,233	62,525	62,525	62,525
PPE	446,433	438,415	420,881	407,578
Non-current investments	14,048	16,850	16,850	16,850
<b>Current assets</b>				
Current Investments	15,165	42,437	42,437	42,437
Inventories	40,990	41,483	35,499	46,076
Trade receivables	27,870	22,383	19,051	24,478
Cash and cash equivalents	4,412	1,465	1,053	1,553
Other bank balances	2,984	3,927	3,927	3,927
<b>Total assets</b>	<b>765,374</b>	<b>793,371</b>	<b>766,110</b>	<b>769,311</b>

Source: Company, YES Sec – Research

## Exhibit 9: Cash Flow statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
<b>PBT</b>	<b>34,685</b>	<b>52,423</b>	<b>37,291</b>	<b>60,289</b>
Depreciation & Amortization	24,507	27,022	27,534	28,303
(Incr)/Decr in Working Capital	(6,957)	4,503	4,265	(7,076)
Taxes	(7,101)	(8,914)	(11,483)	(18,565)
<b>Cash from ops.</b>	<b>59,557</b>	<b>89,020</b>	<b>74,641</b>	<b>76,472</b>
(Incr)/ Decr in PP&E	(17,562)	(17,062)	(10,000)	(15,000)
(Purchase)/ Sale of Current Investments (net)	26,564	(27,195)	0	0
<b>Cash Flow from Investing</b>	<b>11,138</b>	<b>(42,094)</b>	<b>(10,000)</b>	<b>(15,000)</b>
(Decr)/Incr in Borrowings	(46,482)	(25,655)	(44,147)	(41,192)
Dividend paid	(3,462)	(3,800)	(3,871)	(6,259)
<b>Cash Flow from Financing</b>	<b>(67,568)</b>	<b>(49,911)</b>	<b>(65,053)</b>	<b>(60,972)</b>
Incr/(Decr) in cash	3,641	(2,947)	(412)	499
<b>Cash and cash equivalents at beginning of year</b>	<b>772</b>	<b>4,412</b>	<b>1,465</b>	<b>1,053</b>
<b>Cash and cash equivalents at end of year</b>	<b>4,412</b>	<b>1,465</b>	<b>1,053</b>	<b>1,553</b>

Source: Company, YES Sec - Research

## Exhibit 10: Ratios (Consolidated)

Y/e 31 Mar	FY19	FY20	FY21E	FY22E
ROE (%)	7.1	9.4	6.2	9.3
ROCE (%)	9.1	11.7	9.1	12.5
Net debt to equity (x)	0.7	0.5	0.3	0.2
Net debt to EBITDA (x)	3.1	2.0	1.8	1.0
Interest coverage (x)	3.0	3.6	3.2	5.5
EV/EBITDA (x)	17.9	12.9	14.9	11.4
EV/te (\$)	190	149	141	134

Source: Company, YES Sec - Research

## Exhibit 11: Operating Metrics (consolidated)

Per te (in Rs)	FY19	FY20	FY21E	FY22E
Cement volumes (MT)	85.7	82.3	72.2	90.7
Net realizations	4,857	5,117	4,969	5,079
Raw Material costs	815	767	749	773
Employee costs	267	305	313	269
Power and fuel costs	1,101	1,029	925	1,018
Freight costs	1,204	1,181	1,179	1,230
Other expenses	611	708	729	710
<b>EBITDA</b>	<b>858</b>	<b>1,128</b>	<b>1,075</b>	<b>1,079</b>

Source: Company, YES Sec - Research

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