Sharekhan
by BNP PARIBAS

UltraTech Cement

Healthy performance amidst weak environment

Sector: Cement
Result Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 3,530**	
Price Target: **Rs. 3,980**	↑

↑ Upgrade ↔ No change ↓ Downgrade

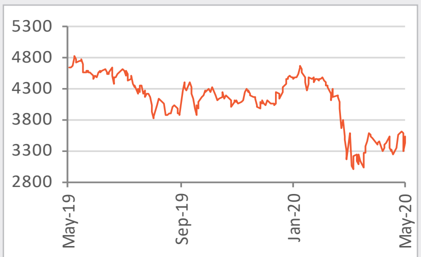
Company details

Market cap:	Rs. 1,01,872 cr
52-week high/low:	Rs. 4,904/2,913
NSE volume: (No of shares)	5.3 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Sharekhan code:	ULTRACEMCO
Free float: (No of shares)	11.5 cr

Shareholding (%)

Promoters	60.0
FII	16.5
DII	14.2
Others	9.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	-20.3	-13.4	-24.1
Relative to Sensex	3.1	4.8	10.7	-3.2

Sharekhan Research, Bloomberg

UltraTech Cement's (UltraTech) standalone operational performance remained largely in line, while net profit beat was led by higher other income and lower income tax rate. The company's standalone net sales declined by 13.5% y-o-y,affected by COVID-19 during March 2020 (Q4 volume declined by 16.5% y-o-y), while blended realisation improved by 3.5% y-o-y (up 1.2% q-o-q). Strong realisation along with contained operating expenses y-o-y (aided by a decline in power and fuel cost and lower raw-material costs) led to EBITDA/tonne surging by 11.8% y-o-y to Rs. 1,102. The company reversed net deferred tax liability of Rs. 1,803 crore, applying lower income tax rates on deferred tax assets/liabilities. Hence, reported profit stood at Rs. 2,906 crore. Adjusting for the same, normalised standalone profit came in at Rs. 1,103 crore, up 4% y-o-y (higher than our estimate). UNCL's assets maintained healthy operational performance with ~Rs. 1,400 EBITDA/tonne, while Century Textiles (Century) showed improvement with adjusted EBITDA/tonne of Rs. 575 (versus Rs. 267 in Q3FY2020). COVID-19 pandemic is likely to affect cement demand during FY2021, which has led to management going slow on its Rs. 940 crore expansion plan of adding 3.4MT capacities. UltraTech has been losing marginal market share over the trailing two quarters owing to its focus on maintaining pricing discipline. We have lowered our estimates for FY2021 and FY2022, factoring delay in capacity expansion. We expect the cement industry to witness improvement in demand from FY2022; while, in the near term, deferment of capacity expansion plans by companies should aid in maintaining healthy pricing discipline (supporting profitability). We expect UltraTech to benefit from sustained rural demand along with gradual recovery in government's infrastructure investment over the next two to three years. Hence, we have maintained our Buy rating on the stock with a revised price target (PT) of Rs. 3,980.

Key positives

- Consolidated net debt reduction of Rs. 5,251 crore in FY2020 reducing net debt/ EBITDA to 1.55x from 2.83x in FY2019.
- UNCL's EBITDA/tonne at Rs. 1,400 plus, while Century's improves upon operational profitability.

Key negatives

- Cement offtake affected by weak March 2020, led by COVID-19 pandemic.
- Deferment of capacity expansion plan although would aid in maintaining pricing discipline in the industry.

Our Call

Valuation –Maintain Buy with a revised PT of Rs. 3,980: UltraTech has shown healthy financial performance considering the weak macro environment. Further, the company has been able to grow inorganically, improving profitability of the acquired assets and at the same time improving balance sheet quality. We have lowered our estimates for FY2021-FY2022,as we factor in delay in capacity addition. We expect UltraTech to be one of the prime beneficiaries as cement demand bounces back during FY2022 with sustained rural demand and improvement in government's public spending on infrastructure and affordable housing sectors. Hence, we continue to maintain our Buy rating with a revised PT of Rs. 3,980.

Key Risks

Weak macro environment leading to lower cement demand and pressure on cement prices negatively affects profitability.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E
Revenue	39,999	40,649	37,493	43,289
OPM (%)	18.9%	23.1%	22.0%	22.8%
Adjusted PAT	2,526	3,652	2,814	3,924
% YoY growth	*6.2%*	*44.6%*	*-22.9%*	*39.4%*
Adjusted EPS (Rs.)	87.5	126.5	97.5	136.0
P/E (x)	40.3	27.9	36.2	26.0
P/B (x)	3.1	2.7	2.5	2.3
EV/EBITDA (x)	16.2	12.7	14.3	11.6
RoNW (%)	8.5%	10.2%	7.1%	9.2%
RoCE (%)	7.6%	8.8%	6.8%	8.3%

Source: Company; Sharekhan estimates

Higher realisations and contained costs limit impact of weak offtake: UltraTech reported restated financials with effect from May 20, 2018, to include cement business financials of Century. During Q4FY2020, UltraTech's standalone net sales declined by 13.5% y-o-y to Rs. 10,360 crore owing to a 16.5% y-o-y decline in sales volume (affected by weak offtake during March 2020 due to COVID-19 led stoppage of work). Blended realisations improved by 3.5% y-o-y (up 1.2% q-o-q). UltraTech has been marginally losing market share over the trailing two quarters to maintain pricing discipline. Blended EBITDA/tonne for Q4FY2020 grew by 11.8% y-o-y on account of increased blended realisation and lower raw-material costs (down 19.2% y-o-y on per tonne basis) and lower power and fuel costs (down 2.1% y-o-y). During Q4, Century and Nathdwara Assets reported EBITDA/tonne of Rs. 575 (excluding one-time cost) and Rs. 1,400, respectively. Overall, standalone operating profit declined by 6.6% y-o-y to Rs. 2,262 crore. The company reversed net deferred tax liability of Rs. 1,803 crore, applying lower income tax rates on deferred tax assets/liabilities. Hence, reported profit stood at Rs. 2,906 crore. Adjusting for the same, normalised standalone profit came in at Rs. 1,103 crore, up 4% y-o-y (higher than our estimate).

Acquired assets performance – Century improves operationally; UNCL maintains healthy performance: Century's assets operated at ~80% capacity utilisation in Q4 (55% during Q3FY2020) despite COVID-19. UltraTech completed brand transition for ~65% production, which helped improve realisation and targets 84% transition to complete by Q3FY2021. Century's assets reported EBITDA/tonne of Rs. 575 (excluding Rs. 40 crore one-time integration cost) as against EBITDA/tonne of Rs. 267 (excluding Rs. 31 crore exceptional item) for Q3FY2020. The company is targeting to ramp up Century's EBITDA/tonne to Rs. 800 to Rs. 900 over two to three quarters. On the other hand, UNCL's assets continued strong operational performance with EBITDA/tonne of ~Rs. 1400 during Q4FY2020 with 57% capacity utilisation.

Focus on cash conservation versus capacity expansion in the near term: UltraTech had announced 3.4MT capacity expansion plan at a capex of Rs. 940 crore with two Brownfield projects (0.6MT each in Bihar and West Bengal) and one Greenfield project (2.2MT in Odisha), which is expected to be delayed due to weak cement demand during FY2021. Hence, it would be majorly incurring maintenance capex during FY2021 (~Rs. 600 crore) apart from completing bara unit (Rs. 120 crore capex left) and Bicharpur coal block (~Rs. 120 crore).

Key Conference call takeaways:

- **Century's Assets Performance:** Century's assets reported adjusted EBITDA/tonne of Rs. 575 (excluding one-time cost of Rs. 40 crore) as against Rs. 267 (excluding Rs. 31 crore one-time expense) in Q3FY2020. Management expects to ramp up its EBITDA/tonne to Rs. 800-900 in two to three quarters. The company has completed brand transition for ~65% production and targets 84% by Q3FY2021.
- **Demand from rural sustaining while government project work has started:** The company has witnessed demand emanating from the rural segment, while work on major government projects (such as national highways, metro networks, airports and DFCs) has been started.
- **Status on operations of plants:** The company has received approval from the government to start its plants in the third week of April 2020. Currently, barring one or two plants, all its plants are operational. The company has been operating at 65-70% capacity utilisation over the past few days with east capacities running at full capacity utilisation.
- **UltraTech capacity expansion deferred:** UltraTech is delaying its 3.4MT capacity expansion plan at a capex of Rs. 940 crore with two Brownfield projects (0.6MT each in Bihar and West Bengal) and one Greenfield project (2.2MT in Odisha) owing to near-term weak demand affected by COVID-19 pandemic. Currently, the focus is on conserving cash.
- **Bara and Dalla units commissioning timeline:** The company commissioned 2MT phase I of Bara grinding unit. The phase II is expected to commission by September 2020. Further, the 2.3MT Dalla super clinker unit is expected to commission by March 2021.
- **Consolidated balance sheet de-leveraging:** The company reduced its consolidated net debt by Rs. 5,251 crore in FY2020, bringing down its net debt/EBITDA at 1.55x.

- **UNCL performance:** UNCL maintained healthy operating performance with EBITDA/tonne of Rs. 1,400 operating at 57% capacity utilisation. The company's price premium in Northern markets along with cost-saving initiatives (especially logistics cost) helped report strong operating performance for UNCL.
- **Reversal of deferred tax liabilities:** The company has applied lower income tax rates on deferred tax assets/ liabilities to the extent these are expected to be realised or settled in future, when the company may be subjected to lower tax rate and, accordingly, has reversed net deferred tax liability of Rs. 1,803.29 crore during Q4FY2020.

Results (Standalone) Rs cr

Particulars	Q4FY2020	Q4FY2019	YoY %	Q3FY2020	QoQ %
Net Sales	**10,360.3**	**11,983.0**	**-13.5%**	**9,981.8**	**3.8%**
Operating Profit	**2,262.3**	**2,421.8**	**-6.6%**	**1,919.0**	**17.9%**
Other Income	223.9	144.6	54.8%	164.0	36.5%
EBITDA	2,486.2	2,566.4	-3.1%	2,083.0	19.4%
Interest	432.4	441.6	-2.1%	402.6	7.4%
Depreciation	609.0	592.7	2.7%	613.7	-0.8%
PBT	**1,444.8**	**1,532.1**	**-5.7%**	**1,066.8**	**35.4%**
Tax	341.8	475.5	-28.1%	290.7	17.6%
Adj.PAT	**1,103.0**	**1,056.7**	**4.4%**	**776.2**	**42.1%**
Margins			**Bps**		**Bps**
OPM	21.8%	20.2%	163	19.2%	261
PATM	10.6%	8.8%	183	7.8%	287
Tax Rate	23.7%	31.0%	-738	27.2%	-359

Source: Company; Sharekhan Research

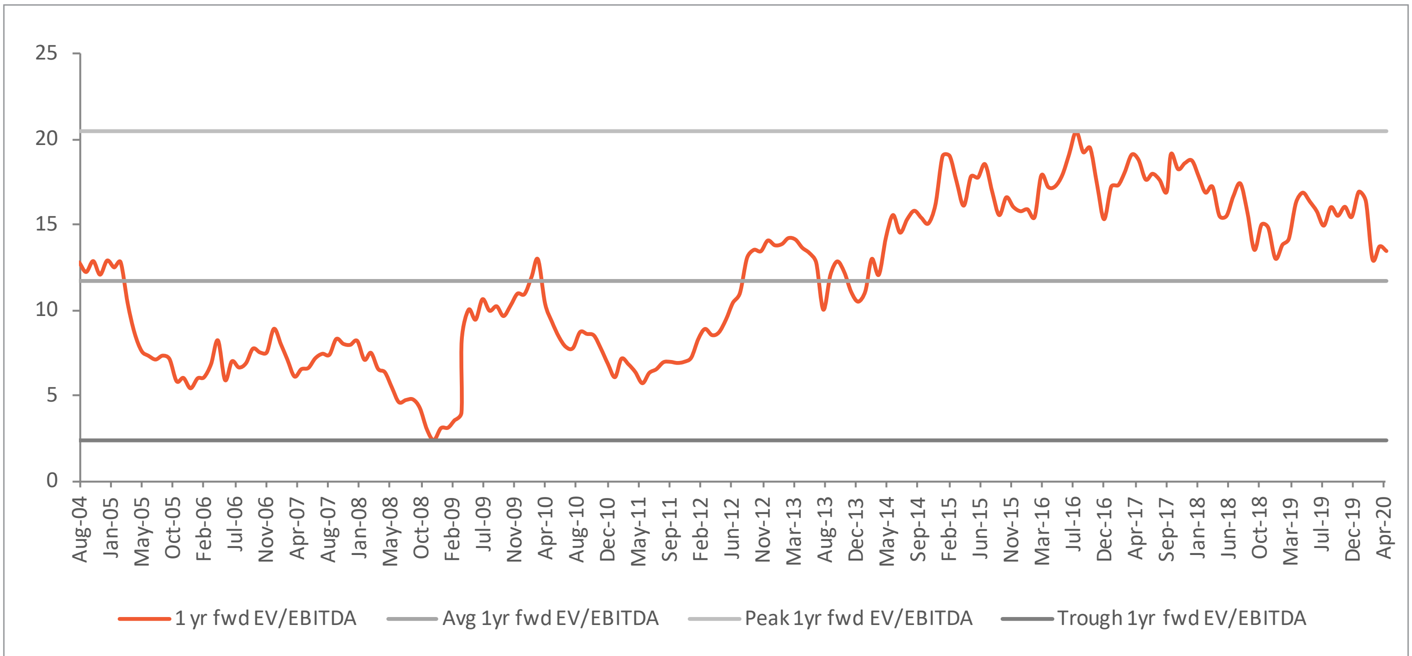
Outlook

Expect the situation to normalise: COVID-19 pandemic has affected cement volume offtake since mid-March 2020. UltraTech had commenced operations from the third week of April 2020 and currently all its plants (barring one or two) are operational and improving upon dispatches. The company has seen demand emanating from the rural segment, while construction activities have gradually started on big ticket-size government projects. UltraTech has seen 65-70% capacity utilisation over the past few days with east capacities running at full capacity. Going ahead, we expect cement demand to gradually improve with cement demand bouncing back in FY2022. In the interim, as cement players defer capacity expansion plans for atleast a year, it would aid in maintaining healthy pricing discipline in the industry, thereby supporting overall profitability.

Valuation

Maintain Buy with a revised PT of Rs. 3,980: UltraTech has shown healthy financial performance, considering the weak macro environment. Further, it has been able to grow inorganically, improving profitability of the acquired assets and at the same time improving balance sheet quality. We have lowered our estimates for FY2021-FY2022, as we factor in delay in capacity addition. We expect UltraTech to be one of the prime beneficiaries, as cement demand bounces back during FY2022 with sustained rural demand and improvement in government's public spending on infrastructure and affordable housing sectors. Hence, we continue to maintain Buy with a revised PT of Rs. 3,980.

One year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
UltraTech Cement	36.2	26.0	14.3	11.6	2.5	2.3	7.1	9.2
Shree Cement	52.3	38.1	18.6	14.9	5.0	4.5	10.0	12.5
The Ramco Cement	25.9	19.3	14.4	11.1	2.5	2.2	9.9	12.1
India Cement	44.8	27.4	8.6	7.7	0.7	0.7	1.5	2.4
JK Lakshmi Cement	11.9	10.2	5.2	4.8	1.2	1.1	10.8	11.5

Source: Sharekhan Research

About company

UltraTech's parent company, the Aditya Birla Group, is in the league of Fortune 500 companies.UltraTech Cement is the largest manufacturer of grey cement, ready mix concrete (RMC), and white cement in India. The company is also one of the leading cement producers globally.The company has a consolidated capacity of 117.4 Million Tonnes Per Annum (MTPA) of grey cement. UltraTech Cement has 20 integrated plants, 1 clinkerisation plant, 26 grinding units and 7 bulk terminals.

Investment theme

UltraTech is India's largest cement company. We expect UltraTech to report industry-leading volume growth on account of timely capacity expansion (acquisition of Jaypee Group's cement assets, Century's assets and Binani Cement's assets) and likely revival in demand (with the start of affordable housing projects and enhanced spending on infrastructure development).We expect it to be the biggest beneficiary of multi-year industry upcycle, being a market leader and its timely scaling up of capacities and profitability in the shortest possible time.

Key Risks

- Slowdown in government spending on infrastructure and increased key input costs led by pet coke and diesel prices.
- Slowdown in the housing sector, especially affordable housing projects.
- Inability to improve capacity utilisation and profitability of acquired units.

Additional Data

Key management personnel

Mr. Kumar Mangalam Birla	Non Independent Director-Chairman
Mr. KK Maheshwari	Managing Director
Mr. Atul Daga	Executive Director & CFO
Mr. Sanjeeb K Chatterjee	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Grasim Industries Ltd	57.29
2	Life Insurance Corp of India	3.87
3	Pilani Investment & Industries Cor	1.6
4	Standard Life Aberdeen PLC	1.47
5	Franklin Resources Inc	1.39
6	Vanguard Group Inc/The	1.36
7	JPMorgan Chase & Co	1.36
8	BlackRock Inc	1.21
9	ICICI Prudential Life Insurance Co	1.11
10	SBI Funds Management Pvt Ltd	0.96

Source: Bloomberg

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Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;