

## Focus shifts to cash conservation...

UltraTech Cement reported a better than estimated performance for Q4FY20. Sales dipped 13.5% YoY to ₹ 10,360 crore (vs. I-direct estimate of ₹ 9,364 crore). The drop in revenue was driven by 16.4% YoY decline in volumes to 20.5 MT (vs. I-direct estimate: 17.8 MT), partly offset by 3.5% increase in realisations YoY to ₹ 5,049/t (vs. I-direct estimate: ₹ 5,260/t). On the profitability front, EBITDA margins expanded 163 bps YoY to 21.8% (vs. I-direct estimate of 23.3%) while absolute EBITDA declined 6.6% YoY to ₹ 2,262 crore (vs. I-direct estimate: ₹ 2,178 crore). EBITDA/t saw an increase of 11% YoY to ₹ 1,103/t (vs. I-direct estimate of ₹ 1,223/t) driven by higher realisations. Net profit increased sharply YoY by 175% due to a reversal of deferred tax liability of ₹ 1803 crore. Further, the company has restricted its total estimated capex outlay for FY21E at ₹ 1000 crore citing increasing focus towards debt reduction and cash conservation.

## Volumes to bottom out in FY21; gain traction from FY22

FY21 is expected to be subdued for the cement industry due to a significant loss of business with Q1 being a strong quarter. On the one hand, rural and semi-urban demand has been supportive since lifting of the lockdown while, on the other, construction and infrastructure activities are expected to lose steam in coming quarters unless labour shortage and liquidity conditions improve. Rural demand in FY21E could be robust on the back of expectations of normal monsoon and pick-up in individual housing building (IHB). We expect UltraTech to report (14.9%), 22.5% YoY growth in volumes FY21E, FY22E, respectively. While prices have remained better during FY20, we do not expect them to sustain in the medium term amid lower offtake. We model realisation growth of (3.3%), 3.5% YoY for FY21E, FY22E, respectively.

## Profitability to derive support from benign costs; B/S firm

While realisations are expected to decline in FY21E, the industry is also expected to benefit from a drop in crude and petcoke prices, which would entail savings in P&F, freight and packing costs. Further, the management is focused towards consolidating the acquired assets, driving synergies, especially on the logistics front and reducing leverage. These measures should lead to an improvement in profitability and reduction in leverage. EBITDA margins are expected to return to over 20% in FY22E. Focus towards debt reduction is expected to cut debt/EBITDA from 2.8x in FY19 to 1.5x by FY22E.

## Valuation & Outlook

UltraTech has sailed through tough times in the past and also managed to protect its B/S despite making large acquisitions. Its pan-India presence, combined with management pedigree and B/S strength, should augur well in future as well. Unlike in the past where UltraTech traded in the range of \$150-200 on an EV/t basis, it is hovering around \$120 on FY22E EV. Also, on the EV/EBITDA front, it is trading at ~30% discount to its eight year average multiple. Thus, we maintain our **BUY** rating with a target price of ₹ 4,200.

### Key Financial Summary (standalone)

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY19-21E)
Net Sales (₹ crore)	29526	39933	40634	33438	42422	2%
EBITDA (₹ crore)	5826	7076	8652	5728	8590	0%
EBITDA (%)	19.7	17.7	21.3	17.1	20.2	
Adjusted PAT (₹ crore)	2458	2530	5456	1613	3771	-17%
EPS (₹)	89.6	87.7	189.1	55.9	130.7	
EV/EBITDA	18.9	16.3	13.2	19.4	12.5	
EV/t (\$)	185	145	0	135	131	
RoNW (%)	9.5	7.6	14.2	4.1	8.8	
RoCE (%)	10.0	9.0	11.4	6.3	11.1	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Mcap	₹ 101837 crore
Debt (FY20)	₹ 18100 crore
Cash & Invest (FY20)	₹ 310 crore
EV	₹ 119627 crore
52 week H/L	₹ 4905/₹ 2910
Equity cap	₹ 288.2 crore
Face value	₹ 10

### Key Highlights

- Volume de-growth of 16.4% while realisation grew 3% YoY
- Reduced debt by ~5,000 crore in FY20. To continue to focus on debt reduction going forward.
- Major capex plans postponed to FY22E. For FY21E capex spend is restricted to ₹1000 crore which includes ~600 crore maintenance capex.
- Maintain BUY with revised target price of ₹ 4,200

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Net Sales	10,360	9,364	11,983	-13.5	9,982	3.8	Weak demand scenario impacts topline, with volumes declining YoY due to Covid-19
Other Incomes	224	102	145	54.8	164	36.5	
Raw Material Expenses	1,631	1,611	2,415	-32.5	1,925	-15.3	Increased usage of low cost additives lead to reduced costs
Employee Expenses	612	590	523	17.0	577	6.2	
Power and fuel	1,932	1,807	2,364	-18.3	1,841	5.0	P&F costs per tonne reduced significantly on account of lower fuel prices (down by 15%), higher usage of greenpower and petcoke consumption
Freight	2,611	2,047	2,938	-11.1	2,340	11.6	
Others	1,312	1,130	1,320	-0.6	1,513	-13.3	
EBITDA	2,262	2,178	2,422	-6.6	1,786	26.7	
EBITDA Margin (%)	21.8	23.3	20.2	163 bps	17.9	394 bps	
Depreciation	609	606	593	2.7	614	-0.8	
Interest	432	392	442	-2.1	403	7.4	
PBT	1,445	1,282	1,532	-5.7	934	54.7	
Total Tax	-1,461	385	475	-407.4	291	-602.8	
PAT	2,906	898	1,057	175.0	643	351.9	

Key Metrics

Volume (MT)	20.5	17.8	24.6	-16.4	20.0	2.6	Overall economic slowdown impacts cement demand
Realisation (₹)	5,049	5,260	4,879	3.5	4,991	1.2	Higher cement prices combined with higher share of retail sales. Premium product sales increased >19% YoY
EBITDA per Tonne (₹)	1,103	1,223	986	11.8	893	23.5	Higher realisations push EBITDA/t higher

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E		
	Old	New	% Change	Old	New	% Change
Revenue	33,780.0	33,438.0	-1.0	39,507.0	42,422.2	7.4
EBITDA	5,926.0	5,727.6	-3.3	7,386.0	8,589.9	16.3
EBITDA Margin (%)	17.5	17.1	-41 bps	18.7	20.2	155 bps
PAT	2,074.1	1,613.5	-22.2	3,323.7	3,770.9	13.5
EPS (₹)	71.9	55.9	-22.2	115.2	130.7	13.5

Source: Company, ICICI Direct Research

Exhibit 3: Key Assumptions

	Current				Earlier			
	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY21E	FY22E
Volume (MT)	48.9	59.1	80.9	78.8	67.0	82.1	68.4	77.3
Realisation (₹)	4,883	4,998	4,937	5,159	4,991	5,169	4,936	5,109
EBITDA per Tonne (₹)	1,015	986	875	1,099	911	1,047	866	955

Source: Company, ICICI Direct Research

## Conference Call Highlights

**Operational status:** The company received approval for production and dispatch of cement by the third week of April. It has a network of 22 integrated units, 23 grinding units and six bulk terminals. The company is dispatching cement from almost all locations except one or two. Currently, it is operating at 60-65% utilisation on companywide capacity. East and central plants are operating at high capacity utilisation. East plants have touched 90% utilisation overall with some plants operating at 100% capacity. North demand has been healthy while demand in the south is also improving. Operations in the west are weak as they have highest cases of Covid.

**Demand:** There was a healthy improvement in sentiments in January and February. Demand started slowing from beginning of March. Post lockdown lifting, demand is from rural markets where pending work is being completed pre-monsoon. Almost all major national highway projects, DFC, metro work, etc, have resumed. While in the last quarter, trade sales constituted ~66% of total volumes, they has reached 90% currently as rural areas constitute major share of demand.

**Urban real estate:** Large urban developers have been able to mobilise their labour and would resume construction. Broadly, labour shortage could slow down construction activities in the near term. However, this would have a lower impact with the monsoon setting in.

**Leverage:** The company's net debt is at ₹ 15,096 crore with 60% of loans on a variable rate basis. Thus, we expect benefits of a reduction in finance costs. Gross debt is at ~₹ 18,200 crore. Operating working capital was at negative ₹ 700 crore. The company intends to reach net debt/EBITDA of 1x at a consolidated level. It is open to acquisition opportunities.

**Capex plans:** Capex for FY21 would be restricted to ₹ 1000 crore. Pending capex on Bara grinding unit and Bicharpur coal block totalling ~₹ 250 crore will be spent while maintenance capex would be ~₹ 600 crore during the year. The 2.2 MT Cuttack grinding unit capex will get pushed to next FY. The brownfield expansion at Bihar and West Bengal grinding units is expected to be completed by March 2021. Nathdwara waste heat recovery management system (WHRMS) would be completed this year, taking total WHRMS capacity to 145 MW. This will restrict work on new WHRMS plants for the time being.

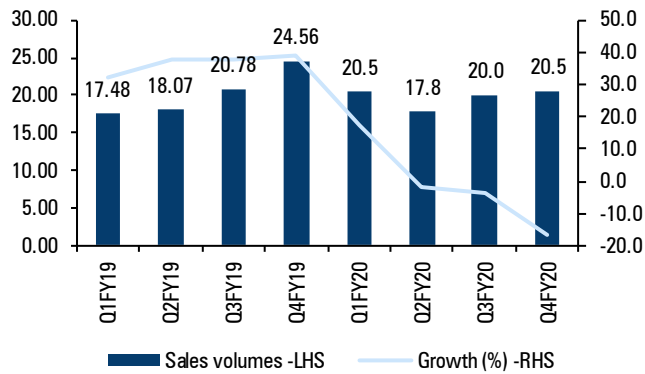
**Cost measures:** The company is targeting a reduction of overheads by 10% by reducing travel expenses, lower R&M as life of plant increased due to shut down and advertising expenses. Currently, UltraTech is operating at 40% of its manpower capacity, despite a 65-70% utilisation. Lower staffing at plants could be the new normal, thus saving on employee costs.

**Century assets:** They operated at 83% for the quarter in spite of Covid-19 shutdown in the quarter. Total 65% of brand conversion was completed (up from 55% QoQ). Realisations increased by 160/t QoQ while costs reduced by ₹ 200/t. Rebranding would get delayed and would resume as demand normalises. Q4 includes ₹ 40 crore spent towards century plants to bring operational efficiencies similar to UltraTech plants. Excluding one-time costs, Century assets clocked ₹ 575 as EBITDA per tonne for Q4FY20. This can see an improvement up to ₹ 800-900 per tonne

**P&F and freight costs:** The company has transporters, which dedicate trucks exclusively for the company while 53% of track fleet is dedicated fleet. Freight costs have been high as the company had to service long lead markets, pushing lead distance to 440 km in Q4, from general trend of 380-400 km. This scenario would continue for a few quarters until demand resumes to normal. A sharp fall in crude prices has led to a correction in petcoke prices as well, benefits of which will start accruing from Q2FY21.

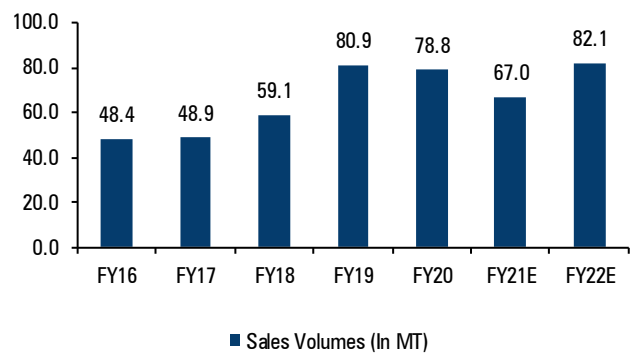
**Other highlights:** RMC revenues for the quarter were at ₹ 555 crore. White cement revenues and volumes were at ₹ 421 crore and 3.2 lakh tonnes, respectively. Shifting to a new tax regime is not lucrative at least for the next two to three years.

Exhibit 4: Sales volumes decline 16.4% YoY during Q4FY20



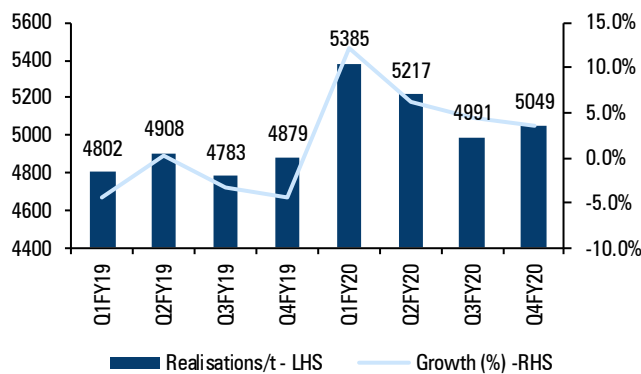
Source: Company, ICICI Direct Research

Exhibit 5: Volumes expected to cross 82 MT by FY22E



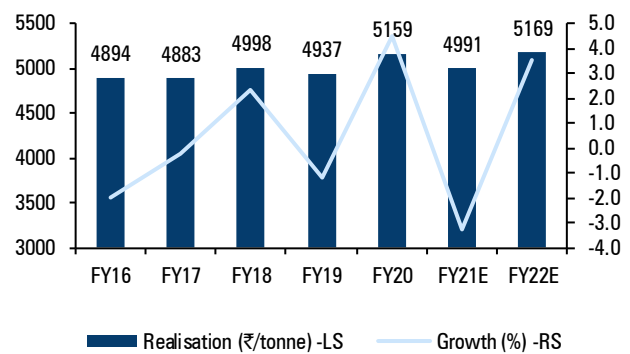
Source: Company, ICICI Direct Research

Exhibit 6: Realisations improves 3.5% YoY during Q4FY20



Source: Company, ICICI Direct Research

Exhibit 7: Realisations expected to cross ~ ₹ 5170/t in FY22E



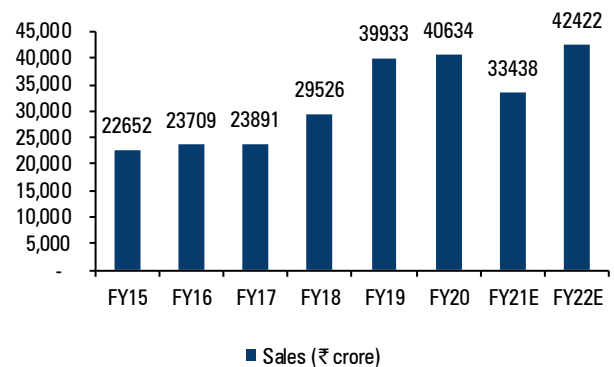
Source: Company, ICICI Direct Research

Exhibit 8: Domestic capacity to reach 118 MT by FY22E

Zone (in mt)	Capacity	Capacity additions	Total
North	23.8		23.8
Central	23.3	2.0	25.3
East	16.1	4.6	20.7
West	27.7		27.7
South	20.5		20.5
<b>Domestic Total</b>	<b>111.4</b>	<b>6.6</b>	<b>118.0</b>
Overseas	3.4		3.4
<b>Total</b>	<b>114.8</b>		<b>121.4</b>

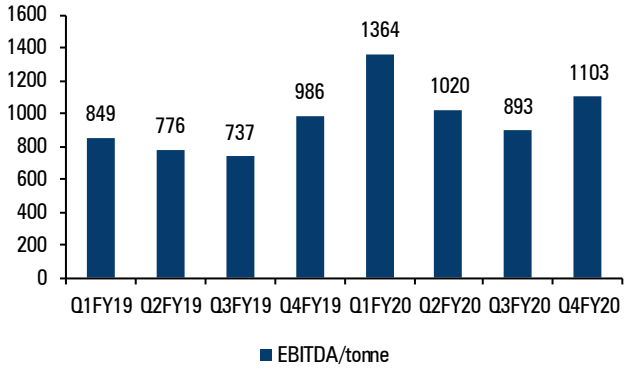
Source: Company, ICICI Direct Research

Exhibit 9: Standalone revenues to grow at 2.5% CAGR in FY20-22E



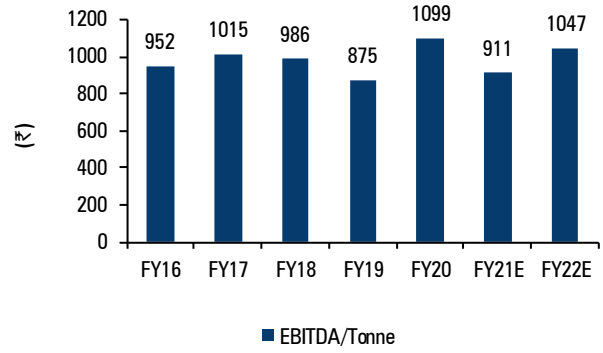
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t increases 11.8% YoY



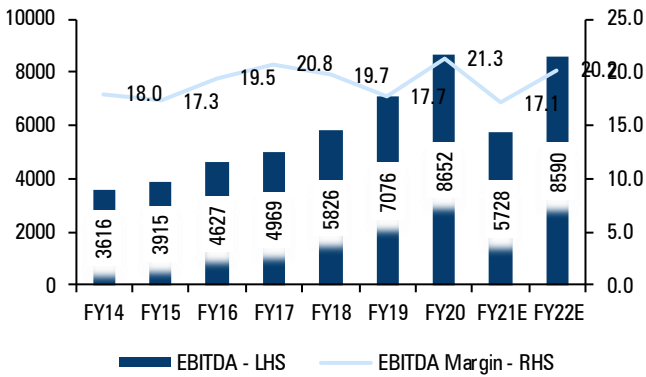
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t to improve from FY22E



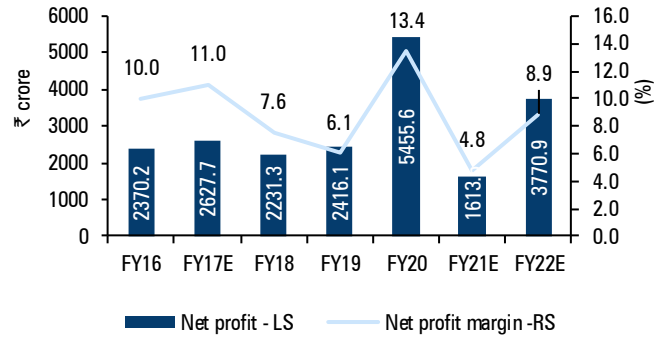
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA growth to moderate in near term



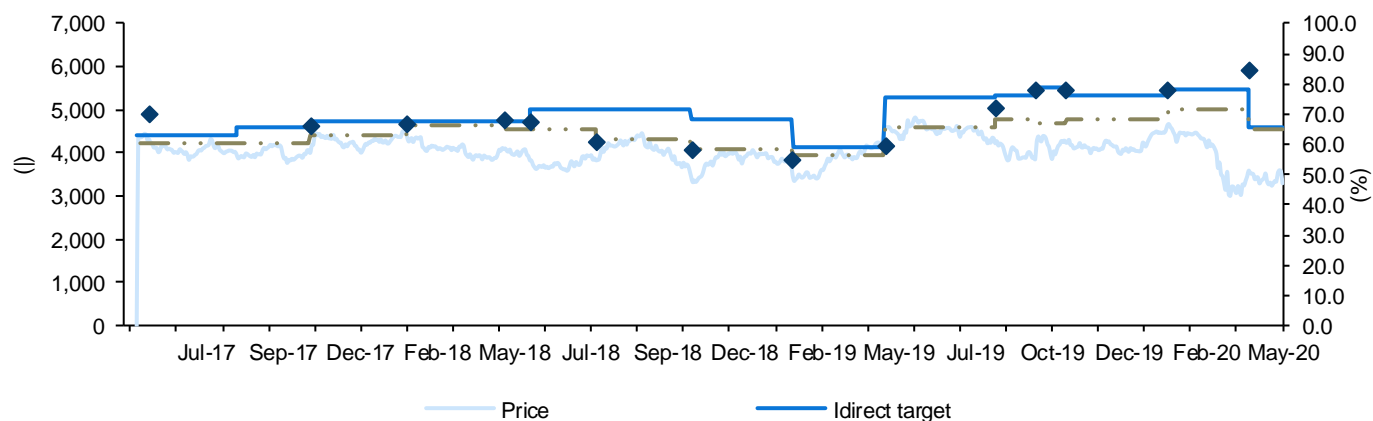
Source: Company, ICICI Direct Research

Exhibit 13: PAT margin to scale back to over 9% by FY22E led by healthy realisations, efficiency measures



Source: Company, ICICI Direct Research

Exhibit 14: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Name	Last filing date	% O/S	Position (m)	Change (m)
1	Grasim Industries Ltd	18-Oct-19	57.3	165.3	0.00
2	Life Insurance Corp	30-Jun-19	3.9	11.16	0.00
3	Pilani Investment &	18-Oct-19	1.6	4.62	4.62
4	Standard Life Aberde	31-Dec-19	1.5	4.26	(0.17)
5	Franklin Resources	23-Jan-20	1.4	4.00	0.89
6	Vanguard Group	31-Dec-19	1.4	3.92	(0.03)
7	Jpmorgan Chase & Co	31-Dec-19	1.4	3.91	(0.08)
8	Blackrock	23-Jan-20	1.2	3.50	0.01
9	Icici Prudential Lif	31-Dec-19	1.1	3.19	(0.28)
10	Sbi Funds Management	31-Dec-19	1.0	2.78	0.16

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Jun-19	Sep-19	Oct-19	Dec-19	Mar-20
Promoter	61.68	61.68	61.11	60.19	60.04
FII	18.59	17.86	17.51	17.60	16.48
DII	8.68	11.93	12.14	12.99	14.15
Others	11.05	8.53	9.24	9.22	9.33

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 17: Profit and Loss account (₹ crore)				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total operating income</b>	<b>39,933.3</b>	<b>40,634.2</b>	<b>33,438.0</b>	<b>42,422.2</b>
Growth (%)	35.2	1.8	-17.7	26.9
Raw material cost	6814.3	6907.5	6230.1	7838.3
Power & Fuel cost	8828.3	7703.2	6565.1	8289.7
Freight cost	10122.3	9570.2	7561.5	9356.7
Employees cost	2158.3	2336.2	2382.9	2397.2
Others	4934.2	5464.8	4970.9	5950.5
Total Operating Exp.	32,857.4	31,981.8	27,710.5	33,832.3
<b>EBITDA</b>	<b>7,075.9</b>	<b>8,652.4</b>	<b>5,727.6</b>	<b>8,589.9</b>
Growth (%)	21.5	22.3	-33.8	50.0
Depreciation	2,317.2	2,454.9	2,520.8	2,590.8
Interest	1,648.4	1,704.2	1,388.4	1,134.0
Other Income	501.2	726.6	520.0	600.0
PBT	3,611.4	5,219.8	2,338.4	5,465.0
Total Tax	1081.4	-235.8	724.9	1694.2
<b>Adj. PAT</b>	<b>2,530.0</b>	<b>5,455.6</b>	<b>1,613.5</b>	<b>3,770.9</b>
Growth (%)	2.9	115.6	-70.4	133.7
<b>Adj. EPS (₹)</b>	<b>87.7</b>	<b>189.1</b>	<b>55.9</b>	<b>130.7</b>

Source: Company, ICICIdirect Research

Exhibit 18: Cash flow statement (₹ Crore)				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	2,416	5,456	1,613	3,771
Add: Depreciation	2,317	2,455	2,521	2,591
(Inc)/dec in Current Assets	-1,260	-435	1,933	-2,699
Inc/(dec) in CL and Provisions	3,716	-815	-2,446	2,056
<b>CF from operating activities</b>	<b>7,190</b>	<b>6,660</b>	<b>3,622</b>	<b>5,719</b>
(Inc)/dec in Investments	-1,601	-288	-350	-350
(Inc)/dec in Fixed Assets	-11,349	-1,100	-1,000	-2,100
Others	1,592	-1,138	0	0
<b>CF from investing activities</b>	<b>-11,357</b>	<b>-2,526</b>	<b>-1,350</b>	<b>-2,450</b>
Issue/(Buy back) of Equity	0	14	0	0
Inc/(dec) in loan funds	2,245	-1,565	-2,500	-3,000
Dividend paid & dividend tax	-381	-452	-452	-452
Inc/(dec) in Sec. premium	0	0	0	0
Others	5,304	16	0	0
<b>CF from financing activities</b>	<b>7,169</b>	<b>-1,987</b>	<b>-2,952</b>	<b>-3,452</b>
Net Cash flow	457	-346	-180	16
Opening Cash	199	656	310	130
<b>Closing Cash</b>	<b>656</b>	<b>310</b>	<b>130</b>	<b>146</b>

Source: Company, ICICIdirect Research

Exhibit 19: Balance Sheet (₹ crore)				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	275	289	289	289
Reserve and Surplus	32,988	38,008	39,169	42,487
Total Shareholders funds	33,263	38,296	39,457	42,776
Total Debt	19,665	18,100	15,600	12,600
Deferred Tax Liability	5,215	4,077	4,077	4,077
Minority Interest / Others	0	0	0	0
<b>Total Liabilities</b>	<b>58,143</b>	<b>60,473</b>	<b>59,134</b>	<b>59,453</b>
<b>Assets</b>				
Gross Block	63,823	64,923	66,729	68,259
Less: Acc Depreciation	17,213	19,668	22,189	24,780
Net Block	46,610	45,255	44,540	43,480
Capital WIP	1,106	1,106	300	870
Total Fixed Assets	47,716	46,361	44,840	44,350
Investments	10,308	13,090	12,940	13,090
Inventory	3,787	3,834	2,396	3,416
Debtors	2,353	1,848	2,000	2,882
Loans and Advances	2,066	2,300	2,381	2,709
Other Current Assets	2,379	3,039	2,311	2,780
Cash	656	310	130	146
Total Current Assets	11,242	11,331	9,217	11,932
Creditors	2,975	3,250	2,247	3,100
Provisions	8,149	7,059	5,617	6,819
Total Current Liabilities	11,124	10,309	7,863	9,919
Net Current Assets	118	1,022	1,354	2,013
Others Assets	0	0	0	0
<b>Application of Funds</b>	<b>58,143</b>	<b>60,473</b>	<b>59,134</b>	<b>59,453</b>

Source: Company, ICICIdirect Research

Exhibit 20: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
Adj. EPS (₹)	87.7	189.1	55.9	130.7
Cash EPS	164.0	274.1	143.3	220.5
BV	1,152.7	1,327.1	1,367.3	1,482.3
DPS	10.9	13.0	13.0	13.0
Cash Per Share	22.7	10.7	4.5	5.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	17.7	21.3	17.1	20.2
PBT / Total Operating income	8.8	12.8	7.0	12.9
PAT Margin	6.1	13.4	4.8	8.9
Inventory days	31.5	34.2	34.0	25.0
Debtor days	18.6	18.9	21.0	21.0
Creditor days	24.3	28.0	30.0	23.0
<b>Return Ratios (%)</b>				
RoE	7.6	14.2	4.1	8.8
RoCE	9.0	11.4	6.3	11.1
RoIC	9.4	11.6	6.1	11.6
<b>Valuation Ratios (x)</b>				
P/E	42.1	18.7	63.1	27.0
EV / EBITDA	16.3	13.2	19.4	12.5
EV / Net Sales	2.9	2.8	3.3	2.5
Market Cap / Sales	2.6	2.5	3.0	2.4
Price to Book Value	3.1	2.7	2.6	2.4
<b>Solvency Ratios</b>				
Debt/EBITDA	2.8	2.1	2.7	1.5
Debt / Equity	0.6	0.5	0.4	0.3
Current Ratio	1.0	1.1	1.2	1.2
Quick Ratio	1.0	1.1	1.2	1.2

Source: Company, ICICIdirect Research



Exhibit 21: ICICI Direct coverage universe (Cement)

Company	CMP		M Cap	EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
ACC*	1,130	1,380	BUY	21,237	73	48	64	7.9	12.3	9.7	71	76	65	17.4	10.8	13.4	11.9	7.4	9.2
Ambuja Cem*	168	195	BUY	33,359	6.3	6.3	7.7	11.0	10.9	9.0	92	93	88	11.3	11.4	13.2	8.6	8.4	10.0
UltraTech Cem	3,529	4,200	BUY	101,837	88	189	76	15.6	12.6	16.1	145	143	134	9.0	11.4	7.6	7.6	14.2	5.5
Shree Cement	18,740	23,500	BUY	67,621	318	435	240	26.6	18.4	23.5	234	197	188	11.5	13.8	8.2	11.5	12.1	6.4
Heidelberg Cem	143	190	BUY	3,241	9.7	12.4	7.9	8.1	6.9	9.3	105	97	84	21.8	23.2	17.1	20.5	22.3	13.4
India Cement	98	105	HOLD	3,011	2.2	3.3	0.8	10.3	9.1	11.0	66	71	69	4.5	5.0	3.7	1.3	1.9	0.5
JK Cement	1,095	1,350	BUY	7,657	42.0	67.4	27.4	11.3	8.5	12.8	116	109	112	12.5	15.3	8.7	11.2	15.7	6.0
JK Lakshmi Cem	195	250	BUY	2,295	6.8	17.0	3.7	8.5	5.5	8.5	39	37	36	9.3	14.8	7.5	5.2	11.9	2.6
Mangalam Cem	152	165	HOLD	406	-3.7	29.0	14.7	17.1	4.0	5.4	37	33	30	3.2	15.8	9.7	-2.0	13.4	6.4
Star Cement	73	85	HOLD	3,060	7.2	7.1	3.9	6.5	6.9	9.5	105	106	71	19.5	17.5	9.7	17.8	16.2	8.4
Ramco Cement	515	610	BUY	12,261	22.2	23.3	10.2	13.0	12.8	16.7	127	106	104	8.2	7.8	5.3	11.7	11.4	5.0
Sagar Cement	283	365	BUY	623	6.2	16.5	-0.6	7.3	6.6	11.0	29	31	36	6.4	7.3	3.5	1.6	3.8	-0.1

Source: Company, ICICI Direct Research, \*CY18, CY19E, CY20E

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Reduce: -15% to -5%;

Sell: <-15%



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