

View: Healthy EBITDA/tn; Accumulate

- Revenue and EBITDA broadly in line, however PAT above estimates. UTCEM posted 13.1% YoY de-growth in revenue to Rs107.5 bn due to 15.7% YoY volume decline to 21.4 mt which was partially offset by 3.0% YoY rise (+1.2% QoQ) in realization to Rs5,012/tn. EBITDA/ APAT grew (3.9%)/ 6.5% YoY to Rs24.4 bn/ Rs11.3 bn.
- We 0.9%/ (-1.3%)/ 2.1% revenue/ EBITDA/ APAT CAGR over FY20-22E led by (-15.1%)/ 20.0% volume growth and (-1.0%)/ 1.0% realization growth in FY21E/ FY22E. We expect EBITDA/tn to marginally cool off to Rs1,004 (FY21E)/ Rs1,078 (FY22E) vs. Rs1,128 (FY20).
- UTCEM reported first yearly volume decline of 3.8% in FY20 post healthy 15%+ CAGR over FY15-19 primarily driven by acquisitions. However, we believe lockdown due to COVID-19 will severely affect industry and UTCEM's volume in Q1FY21E and FY21E. Our 40% volume decline in Q1FY21E and despite 1.5% QoQ rise in realization, results in 37.1% YoY/ 23.8% QoQ de-growth in EBITDA/tn to Rs868 and significant decline in APAT due to high depreciation and finance cost.
- We expect marginal volume growth in FY22E vs. FY20 whereas its healthy EBITDA/tn to marginally decline in FY22E vs FY20 in the current challenging environment. UTCEM will continue to witness healthy operating cash flow (average Rs64.8 bn/year) and free cash flow (average Rs48.3 bn/year) leading to further deleveraging (Net D:E of 0.26x in FY22E vs. 0.42x FY20). UTCEM, being the largest player in Indian cement industry is its biggest advantage. Thus, we recommend Accumulate with a TP of Rs4,069 based on 14x (10% discount to 3/5 year averages) consolidated FY22E EV/EBITDA.

EBITDA/tn - up 14.0%/ 20.7% YoY/ QoQ

In line realization (+3.0% YoY/ +1.2% QoQ to Rs5,012/tn), decline in volume (-15.7% YoY/ +2.6% QoQ to 21.4mt) and lower than expected operating cost per ton (+0.2% YoY/ -3.4% QoQ to Rs3,873/tn) helped UTCEM to report EBITDA/tn of Rs1,139 (+14.0% YoY, +20.7% QoQ). Even for the full year of FY20, UTCEM reported EBITDA/tn of Rs1,128 (+31.5% YoY) driven by +5.3% YoY realization to Rs5,117/tn and -0.3% YoY operating cost per ton to Rs3,989/tn.

Q4FY20 Result (₹ Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	1,07,456	1,23,706	(13.1)	1,03,538	3.8
Total Expense	83,030	98,296	(15.5)	83,808	(0.9)
EBITDA	24,427	25,410	(3.9)	19,730	23.8
Depreciation	6,724	6,409	4.9	6,730	(0.1)
EBIT	17,703	19,001	(6.8)	13,000	36.2
Other Income	1,979	1,306	51.6	1,682	17.7
Interest	5,048	5,046	0.1	4,708	7.2
EBT	14,634	15,261	(4.1)	9,973	46.7
Tax	(17,774)	4,605	(485.9)	2,862	(721.1)
RPAT	32,428	10,643	204.7	7,119	355.5
APAT	11,333	10,643	6.5	7,119	59.2
			(bps)		(bps)
Gross Margin (%)	41.8	36.6	524	40.4	143
EBITDA Margin (%)	22.7	20.5	219	19.1	368
NPM (%)	30.2	8.6	2157	6.9	2330
Tax Rate (%)	(121.5)	30.2	(15163)	28.7	(15015)
EBIT Margin (%)	16.5	15.4	111	12.6	392

CMP	Rs 3,529
Target / Upside	Rs 4,069 / 15%
BSE Sensex	30,861
NSE Nifty	9,067

Scrip Details

Equity / FV	Rs 2,886mn / Rs 10
Market Cap	Rs 1,018bn
	USD 13bn
52-week High/Low	Rs 4,905/Rs 2,910
Avg. Volume (no)	6,90,982
NSE Symbol	ULTRACEMCO
Bloomberg Code	UTCEM IN

Shareholding Pattern Mar'20(%)

Promoters	59.7
MF/Banks/FIs	14.2
FII	16.5
Public / Others	9.7

Valuation (x)

	FY20A	FY21E	FY22E
P/E	27.5	43.9	26.4
EV/EBITDA	12.7	16.4	12.4
ROE (%)	10.2	5.8	9.0
RoACE (%)	11.8	6.1	8.1

Estimates (₹ mn)

	FY20A	FY21E	FY22E
Revenue	4,21,248	3,54,206	4,29,276
EBITDA	92,836	70,206	90,490
PAT	37,054	23,222	38,643
EPS (Rs.)	128.4	80.5	133.9

VP Research: Shravan Shah
Tel: +91 22 40969749
E-mail: shravans@dolatcapital.com

Associate: Maulik Shah
Tel: +91 22 40969775
E-mail: mauliks@dolatcapital.com

Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars	Actual	DART Est	% Variance	Comments
Revenue(Rs mn)	1,07,456	1,13,251	(5.1)	-3.9%/ -1.3% lower than estimated volume/ realization
EBITDA(Rs mn)	24,427	24,889	(1.9)	In line
EBITDA%	22.7	22.0	76 bps	
APAT(Rs mn)	11,333	10,259	10.5	Lower than estimated Tax

Source: Company, DART

Exhibit 2: Estimates table

(Rs mn)	FY21E			FY22E		
	New	Old	% change	New	Old	% change
Net revenue	3,54,206	-	-	4,29,276	-	-
EBIDTA	70,206	-	-	90,490	-	-
EBIDTA margin (%)	19.8	-	-	21.1	-	-
Adj. Net Profit	23,222	-	-	38,643	-	-
EPS (Rs)	80.5	-	-	133.9	-	-

Source: DART, Company

Exhibit 3: Volume, Realization & Cost/tn Analysis

(Rs)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Volume(MT)	21.4	25.4	(15.7)	20.9	2.6	82.33	85.67	(3.9)
Realization/tn (₹)	5,012	4,865	3.0	4,954	1.2	5,117	4,857	5.3
EBITDA/tn (₹)	1,139	999	14.0	944	20.7	1,128	858	31.5
Cost/tn (₹)	3,873	3,865	0.2	4,010	(3.4)	3,989	3,999	(0.3)
Raw Material Cost/tn (₹)	678	913	(25.7)	856	(20.7)	767	815	(5.9)
Employee Expenses/tn (₹)	305	222	37.4	297	3.0	305	267	14.0
Power and Fuels/tn (₹)	988	1,017	(2.8)	976	1.2	1,029	1,101	(6.6)
Freight Expenses/tn (₹)	1,249	1,155	8.2	1,121	11.4	1,181	1,204	(1.9)
Other expenses/tn (₹)	652	558	16.7	760	(14.3)	708	611	15.7

Source: Company, DART

Exhibit 4: % of Revenue

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Raw Material Cost	13.5	18.8	(523)	17.3	(374)	15.0	16.8	(10.7)
Employee Expenses	6.1	4.6	152	6.0	11	6.0	5.5	8.2
Power and Fuels	19.7	20.9	(119)	19.7	1	20.1	22.7	(11.4)
Freight Expenses	24.9	23.7	118	22.6	229	23.1	24.8	(6.9)
Other expenses	13.0	11.5	152	15.4	(235)	13.8	12.6	9.9

Source: Company, DART

Exhibit 5: Valuation

Particulars	Rs mn
Assumed EV/EBITDA multiple (x)	14
EBITDA (FY22E)	90,490
EV	12,66,855
Less: Net Debt (FY22E)	99,493
50% of FY22E Capital WIP	7,048
Mcap	11,74,410
Shares o/s (mn)	289
Target Price	4,069
CMP (Rs)	3,529
Upside (%)	15.3

Source: Company, DART

Exhibit 6: Income statement (Consolidated)

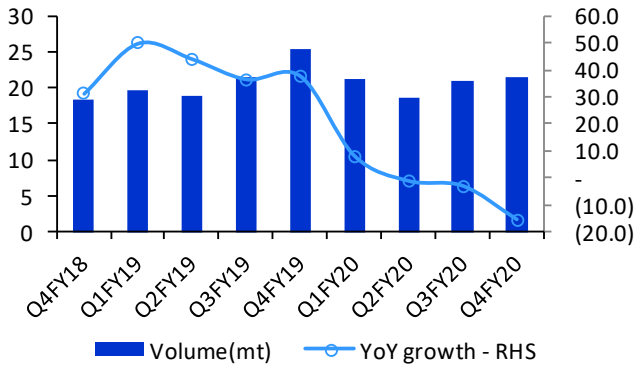
RsMn	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total Revenue	1,07,456	1,23,706	(13.1)	1,03,538	3.8	4,21,248	4,16,088	1.2
Raw Material Cost	14,540	23,212	(37.4)	17,881	(18.7)	63,131	69,831	(9.6)
Employee Expenses	6,550	5,655	15.8	6,200	5.6	25,094	22,911	9.5
Power and Fuel	21,181	25,858	(18.1)	20,394	3.9	84,679	94,361	(10.3)
Freight Cost	26,786	29,371	(8.8)	23,438	14.3	97,254	1,03,145	(5.7)
Other expenses	13,973	14,200	(1.6)	15,894	(12.1)	58,255	52,371	11.2
Total Expenditure	83,030	98,296	(15.5)	83,808	(0.9)	3,28,413	3,42,619	(4.1)
PBIDT (Excl. OI)	24,427	25,410	(3.9)	19,730	23.8	92,836	73,469	26.4
Other Income	1,979	1,306	51.6	1,682	17.7	6,478	4,634	39.8
Depreciation	6,724	6,409	4.9	6,730	(0.1)	27,022	24,507	10.3
EBIT	19,682	20,307	(3.1)	14,681	34.1	72,292	53,596	34.9
Interest	5,048	5,046	0.1	4,708	7.2	19,857	17,779	11.7
Exceptional items	-	-	-	-	-	-	(1,139)	-
EBT	14,634	15,261	(4.1)	9,973	46.7	52,435	34,679	51.2
Tax	(17,774)	4,605	-	2,862	-	(5,682)	10,681	-
Share of P/L of associate and JV (net of tax)	(14)	2	-	1	-	(12)	5	-
Minority interest	(34)	14	-	(7)	-	(44)	(31)	-
RPAT	32,428	10,643	204.7	7,119	355.5	58,148	24,035	141.9
Adjustment	(21,095)	-	-	-	-	(21,095)	1,139	-
APAT	11,333	10,643	6.5	7,119	59.2	37,054	25,174	47.2
Adj. EPS (Rs)	39.3	36.9	6.5	24.7	59.2	128.4	87.2	47.2
			<i>bps</i>		<i>bps</i>			<i>bps</i>
EBIDTA Margin (excl. O.I.)	22.7	20.5	219	19.1	368	22.0	17.7	438
NPM (%)	10.5	8.6	194	6.9	367	8.8	6.1	275
Tax Rate (%)	(121.5)	30.2	-	28.7	-	(10.8)	30.8	-

Source: DART, Company

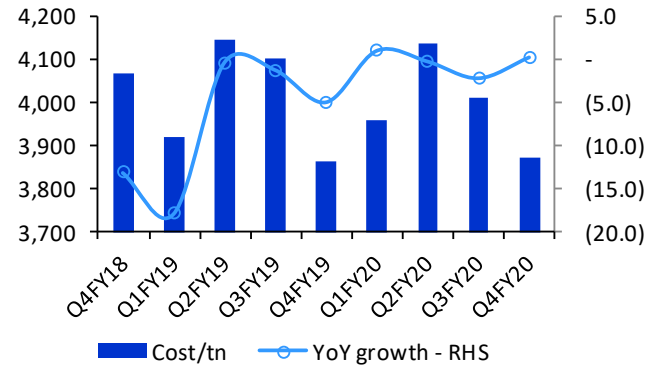
Key earnings takeaways

- **Demand** - Demand sentiment was good in Jan-Feb'20. Since approval to operate cement plants on 20th Apr'20, sales are improving from all the locations. Pre monsoon work is going on.
- **Volume** down 15.5% YoY in Q4FY20 is in line as per industry. Management believes the government will face fiscal pressure but rural market will give a good opportunity for growth.
- **Utilization** - Ultratech running at 65-70% utilization at company level. Q4 utilization stood at 74% and management believes there is enough headroom left for organic growth. All cement plants running except Delhi grinding unit. East region is at 95-100% utilization, Central is below 60% but picking up, rest is at 65-80%. North region is doing well, South is gaining pace and worst is the West region.
- **Demand drivers** - Retail rural markets and Infrastructure projects. Work commenced on few infrastructure projects like national highway projects like Mumbai – Nagpur expressway, Delhi – Mumbai, Vadodara – Mumbai, Metro projects, Airports, Dams etc.
- **Century assets** utilization stood at 83% in Q4FY20 vs. 55% in 3Q20 and 79% in Dec'19 for 14.6mtpa. If not for the Covid situation, it would have been at 90%. Realization increased by ₹160/ tn and cost decreased by ₹200/ tn. Century EBITDA/tn stood at ₹575/ tn in Q4FY20 which is likely to go up to ₹800/ tn. 65% production of Century is branded as Ultratech already and plan is to increase it to 80-85%. Century in Chhattisgarh will not be re branded.
- **Nathdwara plant** utilisation stood at 57% in Q4FY20 and EBITDA/tn at ₹1,400/ tn.
- **Price** increased 2% QoQ in 4Q20 and 4Q20 exit prices higher than average for the quarter. Chhattisgarh is weakest in price.
- **Capex** - Cut capex target to ₹10 bn (₹6-7 bn for maintenance capex) for FY21E. Cuttack plant expansion delayed by 12 months to Mar'22E. Brownfield expansion in WB/ Bihar is almost done.
- With cement industry having lower utilization rate, there are chances capex addition will be lower going ahead.
- **Debt** - Net debt reduced by ₹17.65 bn/ ₹52.51 bn in 4Q20 / FY20 to ₹168.6 bn vs. ₹221.11 bn. 60% of Debt is has variable rate. Net Debt/ EBITDA decreased to 1.55x in Mar'20 from 2.64x in Mar'19. Target of 1x.
- **Cost** - Benefit of reduction in **petcoke prices** will come in Q2FY21E. Petcoke consumption currently at 68%, can increase to 75-80% over a period of time. International coal/ petcoke is available. **Lead distance** increased from 400kms in 3Q20 to 440kms in 4Q20 and expect to remain higher as company need to manage distribution. Company has 53% dedicated fleet which is its advantages. Increase in raw material expenses led by **fly ash** prices. No issues of availability of fly ash as power companies are running however, transport of fly ash could be a problem.
- Target to reduce 10% **overheads** cost in FY21E and FY22E each by reducing Ad spends, travel expenses, admin related expenses and maintenance expenses.
- Migration of **labour** may lead to a lull period in 2-3 months. Labour cost is not going down but number of people at a plant are less. Company has realized 35-40% of manpower is sufficient.

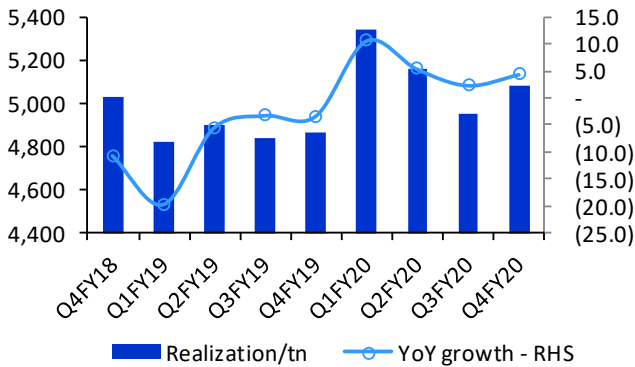
- **Trade volume** stood at 66% in Q4. Majority of the sales is happening in trade market. **Trade - Non trade** remained same at 68:32 in 4Q20 vs 3Q20, but increased to 90% currently. Blended cement share 68% in 4Q20. Rural - 35% share in demand in normal scenario.
- The company has 900-1,000 **distribution points** on a normal day. Road/ Rail/ Sea mix stood at 70%/ 27%/ 3%.
- **Operating working capital** stood at negative ₹7 bn. Expect to work with negative working capital.
- **Finance cost** higher by ₹480 mn due to Ind AS adjustment in 4Q20.
- **RoE** improved from 7.3% (FY20) to 10.2% (FY21) and UTCM expect RoE to improve going forward. **Conserving cash** is the motto. Not ruling out the possibility of M&A.
- **WHRS** - Added 33MW in FY20. Expect WHRS capacity to rise to 145MW by FY21 from 118MW in FY20.
- **White cement & RMC** - White cement volume 3.2 lac ton v/s 3.7 lac, Revenue for Q4FY20 stood at ₹4.21 bn v/s ₹5 bn. RMC revenue ₹5.6 bn v/s ₹5.1 bn
- No exposure to Franklin mutual fund.
- Will adopt the **new tax rate** in the next 2-3 years.
- COVID-19 committed ₹750 mn to support health of citizens of India.

Exhibit 7: Volume (mt)


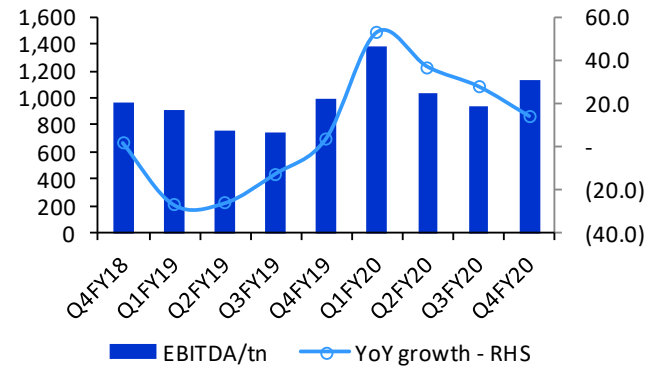
Source: Company, DART

Exhibit 8: Cost/tn (Rs)


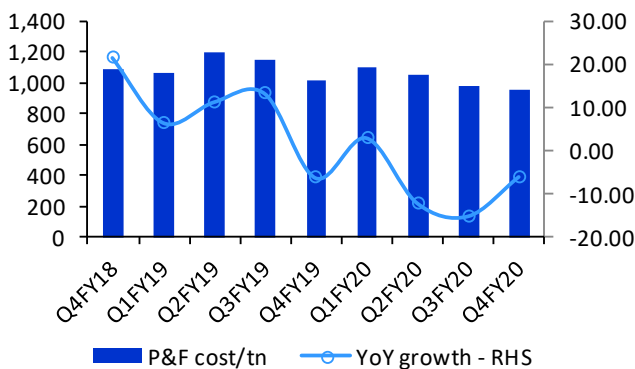
Source: Company, DART

Exhibit 9: Realization/tn (Rs)


Source: Company, DART

Exhibit 10: EBITDA/tn (Rs)


Source: Company, DART

Exhibit 11: Power & fuel cost/tn (Rs)


Source: Company, DART

Exhibit 12: Freight cost/tn (Rs)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	4,16,088	4,21,248	3,54,206	4,29,276
Total Expense	3,42,634	3,28,413	2,84,001	3,38,787
COGS	2,67,349	2,45,064	2,08,174	2,52,113
Employees Cost	22,917	25,094	26,349	28,193
Other expenses	52,368	58,255	49,478	58,480
EBIDTA	73,454	92,836	70,206	90,490
Depreciation	24,507	27,022	28,052	29,008
EBIT	48,946	65,814	42,154	61,482
Interest	17,779	19,857	17,078	14,781
Other Income	4,650	6,478	8,097	8,502
Exc. / E.O. items	(1,139)	0	0	0
EBT	34,685	52,423	33,174	55,205
Tax	10,681	(5,682)	9,952	16,561
RPAT	24,041	58,148	23,222	38,643
Minority Interest	(31)	(44)	0	0
Profit/Loss share of associates	5	0	0	0
APAT	25,174	37,054	23,222	38,643

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	2,746	2,886	2,886	2,886
Minority Interest	122	75	75	75
Reserves & Surplus	3,34,760	3,88,269	4,07,738	4,42,053
Net Worth	3,37,507	3,91,155	4,10,625	4,44,939
Total Debt	2,53,370	2,28,979	1,97,979	1,66,979
Net Deferred Tax Liability	64,114	49,120	49,120	49,120
Total Capital Employed	6,55,112	6,69,329	6,57,799	6,61,113

Applications of Funds

Net Block	5,04,447	5,07,632	4,92,580	4,78,572
CWIP	73,720	71,620	71,620	76,620
Investments	13,862	16,618	16,618	16,618
Current Assets, Loans & Advances	1,73,347	1,97,502	1,79,444	2,01,356
Current Investments	15,165	42,437	40,000	42,000
Inventories	40,990	41,483	34,935	41,163
Receivables	27,870	22,383	21,349	24,698
Cash and Bank Balances	7,397	5,392	6,813	8,869
Loans and Advances	13,541	14,294	13,344	12,394
Other Current Assets	68,384	71,513	63,002	72,232
Less: Current Liabilities & Provisions	1,10,262	1,24,042	1,02,462	1,12,053
Payables	31,597	35,014	26,202	28,226
Other Current Liabilities	78,665	89,028	76,261	83,826
Net Current Assets	63,084	73,459	76,981	89,303
Total Assets	6,55,112	6,69,329	6,57,799	6,61,113

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	35.7	41.8	41.2	41.3
EBIDTA Margin	17.7	22.0	19.8	21.1
EBIT Margin	11.8	15.6	11.9	14.3
Tax rate	30.8	(10.8)	30.0	30.0
Net Profit Margin	6.1	8.8	6.6	9.0
(B) As Percentage of Net Sales (%)				
COGS	64.3	58.2	58.8	58.7
Employee	5.5	6.0	7.4	6.6
Other	12.6	13.8	14.0	13.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.8	0.6	0.5	0.4
Interest Coverage	2.8	3.3	2.5	4.2
Inventory days	36	36	36	35
Debtors days	24	19	22	21
Average Cost of Debt	7.9	8.2	8.0	8.1
Payable days	28	30	27	24
Working Capital days	55	64	79	76
FA T/O	0.8	0.8	0.7	0.9
(D) Measures of Investment				
AEPS (Rs)	87.2	128.4	80.5	133.9
CEPS (Rs)	172.1	222.0	177.6	234.4
DPS (Rs)	12.0	13.2	13.0	15.0
Dividend Payout (%)	13.8	10.3	16.2	11.2
BVPS (Rs)	1169.4	1355.2	1422.7	1541.6
RoANW (%)	8.4	10.2	5.8	9.0
RoACE (%)	7.5	11.8	6.1	8.1
RoAIC (%)	8.6	10.0	6.4	9.4
(E) Valuation Ratios				
CMP (Rs)	3529	3529	3529	3529
P/E	40.5	27.5	43.9	26.4
Mcap (Rs Mn)	10,18,414	10,18,414	10,18,414	10,18,414
MCap/ Sales	2.4	2.4	2.9	2.4
EV	11,86,024	11,82,946	11,52,962	11,17,906
EV/Sales	2.9	2.8	3.3	2.6
EV/EBITDA	16.1	12.7	16.4	12.4
P/BV	3.0	2.6	2.5	2.3
Dividend Yield (%)	0.3	0.4	0.4	0.4
(F) Growth Rate (%)				
Revenue	34.3	1.2	(15.9)	21.2
EBITDA	19.5	26.4	(24.4)	28.9
EBIT	13.9	34.5	(36.0)	45.9
PBT	5.1	51.1	(36.7)	66.4
APAT	(2.0)	47.2	(37.3)	66.4
EPS	(2.0)	47.2	(37.3)	66.4
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	59,557	89,020	59,766	69,915
CFI	12,704	(41,151)	(6,515)	(17,749)
CFF	(67,568)	(49,911)	(51,830)	(50,110)
FCFF	41,995	71,958	46,766	49,915
Opening Cash	2,191	7,397	5,392	6,813
Closing Cash	7,397	5,392	6,813	8,869

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
