

### View: EBITDA/tn at multi quarter/ year high; Upgrade to Buy

- Revenue was in line, however EBITDA, EBITDA/tn and APAT above estimates. UTCEM posted 33.1% YoY de-growth in revenue to Rs76.3 bn due to 31.4% YoY volume decline to 14.7 mt coupled with 2.4% YoY decline (+4.0% QoQ) in realization to Rs5,211/tn. EBITDA/ APAT down 29.7%/ 25.5% YoY to Rs20.7 bn/ Rs9.5 bn.
- We expect 2.2%/ 5.2%/ 12.8% revenue/ EBITDA/ APAT CAGR over FY20-22E led by -10.9%/ 15.0% volume growth and 1.0%/ 1.0% realization growth in FY21E/ FY22E.
- We increase our revenue estimates by 7.0%/ 2.5% for FY21E/ FY22E. We increase our EBITDA margin estimates by 315/ 225 bps to 23.0%/ 23.3% for FY21E/ FY22E to factor Q1FY21 results. Accordingly, upgrade our APAT estimates by 55.6%/ 22.1% for FY21E/ FY22E.
- UTCEM will continue to witness healthy operating cash flow (average Rs74.0 bn/year) and free cash flow (average Rs53.0 bn/year) leading to further deleveraging (Net D:E of 0.19x in FY22E vs. 0.42x FY20). UTCEM, being the largest player in Indian cement industry is its biggest advantage. Thus, we upgrade to Buy with a TP of Rs5,053 based on 15x (8% discount to 3-5 year averages) consolidated FY22E EV/EBITDA.

### EBITDA/tn - up 2.5%/ 24.3% YoY/ QoQ

Higher than anticipated volume (-31.4% YoY/ -31.7% QoQ to 14.7mt), and lower than expected realization (-2.4% YoY/ +4.0% QoQ to Rs5,211/tn) and lower than expected operating cost/ tn (-4.1% YoY/ -2.0% QoQ to Rs3,795/tn) helped UTCEM to report EBITDA/tn of Rs1,416 (+2.5% YoY, +24.3% QoQ).

### Management Outlook

UTCEM is positive on rural market driven by good monsoon and good kharif harvesting. Prices can decline 4-5% in Q2FY21E due to monsoon. UTCEM expects Rs5 bn/ year savings in fixed overheads. It increased capex guidance to Rs15 bn to Rs10 bn and expects Net Debt/ EBITDA of 1x. Don't expect much savings in P&F cost. Impact of 15% rise in diesel prices (May-Jun'20) will be felt from Q2FY21E.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	76,338	1,14,049	(33.1)	1,07,456	(29.0)
Total Expense	55,592	84,551	(34.3)	83,030	(33.0)
EBITDA	20,746	29,498	(29.7)	24,427	(15.1)
Depreciation	6,462	6,884	(6.1)	6,724	(3.9)
EBIT	14,284	22,614	(36.8)	17,703	(19.3)
Other Income	2,788	1,342	107.8	1,979	40.9
Interest	3,930	5,029	(21.8)	5,048	(22.1)
EBT	14,716	18,927	(22.3)	14,634	0.6
Tax	3,603	6,118	(41.1)	(17,774)	(120.3)
RPAT	11,122	12,811	(13.2)	32,428	(65.7)
APAT	12,205	12,811	(4.7)	11,333	7.7
			(bps)		(bps)
Gross Margin (%)	45.5	43.2	226	41.8	362
EBITDA Margin (%)	27.2	25.9	131	22.7	444
NPM (%)	14.6	11.2	334	30.2	(1561)
Tax Rate (%)	24.5	32.3	(784)	(121.5)	14594
EBIT Margin (%)	18.7	19.8	(112)	16.5	224

CMP	Rs 4,136
Target / Upside	Rs 5,053 / 22%
BSE Sensex	38,469
NSE Nifty	11,301

### Script Details

Equity / FV	Rs 2,886mn / Rs 10
Market Cap	Rs 1,194bn
	US\$ 16bn
52-week High/Low	Rs 4,754/Rs 2,910
Avg. Volume (no)	6,08,537
NSE Symbol	ULTRACEMCO
Bloomberg Code	UTCEM IN

### Shareholding Pattern Jun'20(%)

Promoters	60.0
MF/Banks/FIs	14.6
FIIIs	16.1
Public / Others	9.3

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	32.2	33.0	25.3
EV/EBITDA	14.8	15.4	12.7
ROE (%)	10.2	8.9	10.6
RoACE (%)	11.8	7.9	9.2

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	4,21,248	3,78,991	4,40,199
EBITDA	92,836	87,050	1,02,703
PAT	37,054	36,137	47,171
EPS (Rs.)	128.4	125.2	163.4

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

Particulars	Actual	DART Est	% Variance	Comments
Revenue(Rs mn)	76,338	76,940	(0.8)	In line
EBITDA(Rs mn)	20,746	17,338	19.7	+4.0%/ -4.6% higher/ lower than estimated volume/ realization
EBITDA%	27.2	22.5	464	
APAT(Rs mn)	9,548	5,306	80.0	Better operating efficiency coupled with higher other income

Source: Company, DART

**Exhibit 2: Estimates table – Increase estimates for FY21E and FY22E**

(Rs mn)	FY21E			FY22E		
	New	Old	% change	New	Old	% change
Net revenue	3,78,991	3,54,206	7.0	4,40,199	4,29,276	2.5
EBIDTA	87,050	70,206	24.0	1,02,703	90,490	13.5
EBIDTA margin (%)	23.0	19.8	315	23.3	21.1	225
Adj. Net Profit	36,137	23,222	55.6	47,171	38,643	22.1
EPS (Rs)	125.2	80.5	55.6	163.4	133.9	22.1

Source: DART, Company

**Exhibit 3: Volume, Realization & Cost/tn Analysis**

(Rs)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Volume(MT)	14.7	21.4	(31.4)	21.4	(31.7)	82.50	85.67	(3.7)
Realization/tn (Rs)	5,211	5,339	(2.4)	5,012	4.0	5,106	4,857	5.1
EBITDA/tn (Rs)	1,416	1,381	2.5	1,139	24.3	1,125	857	31.2
Cost/tn (Rs)	3,795	3,958	(4.1)	3,873	(2.0)	3,981	3,999	(0.5)
Raw Material Cost/tn (Rs)	810	734	10.4	678	19.5	765	828	(7.5)
Employee Expenses/tn (Rs)	383	279	37.1	305	25.2	304	268	13.7
Power and Fuels/tn (Rs)	936	1,098	(14.8)	988	(5.3)	1,026	1,102	(6.8)
Freight Expenses/tn (Rs)	1,096	1,202	(8.8)	1,249	(12.3)	1,179	1,192	(1.1)
Other expenses/tn (Rs)	570	646	(11.8)	652	(12.6)	706	611	15.5

Source: Company, DART

**Exhibit 4: % of Revenue**

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
Raw Material Cost	15.6	13.7	181	13.5	202	15.0	17.0	(12.0)
Employee Expenses	7.3	5.2	212	6.1	125	6.0	5.5	8.2
Power and Fuels	18.0	20.6	(260)	19.7	(175)	20.1	22.7	(11.4)
Freight Expenses	21.0	22.5	(147)	24.9	(389)	23.1	24.5	(5.9)
Other expenses	10.9	12.1	(116)	13.0	(207)	13.8	12.6	9.9

Source: Company, DART

**Exhibit 5: Valuation**

Particulars	Rs mn
Assumed EV/EBITDA multiple (x)	15
EBITDA (FY22E)	1,02,703
EV	15,40,544
Less: Net Debt (FY22E)	89,197
50% of FY22E Capital WIP	7,048
Mcap	14,58,394
Shares o/s (mn)	289
<b>Target Price</b>	<b>5,053</b>
<b>CMP (Rs)</b>	<b>4,136</b>
Upside (%)	22.2

Source: Company, DART

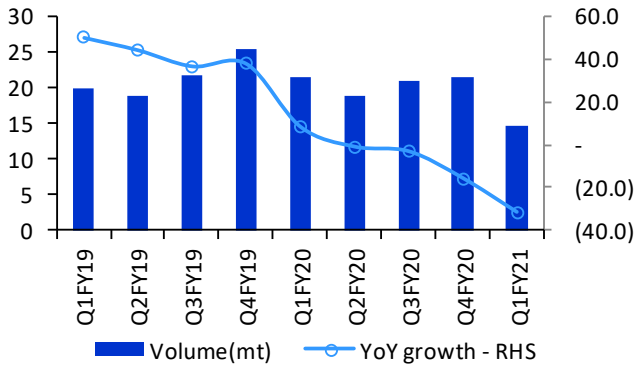
**Exhibit 6: Income statement (Consolidated)**

Rs (Mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	FY20	FY19	YoY (%)
<b>Total Revenue</b>	<b>76,338</b>	<b>1,14,049</b>	<b>(33.1)</b>	<b>1,07,456</b>	<b>(29.0)</b>	<b>4,21,248</b>	<b>4,16,088</b>	<b>1.2</b>
Raw Material Cost	11,873	15,677	(24.3)	14,540	(18.3)	63,131	70,892	(10.9)
Employee Expenses	5,604	5,960	(6.0)	6,550	(14.4)	25,094	22,917	9.5
Power and Fuel	13,708	23,446	(41.5)	21,181	(35.3)	84,679	94,379	(10.3)
Freight Cost	16,059	25,670	(37.4)	26,786	(40.0)	97,254	1,02,078	(4.7)
Other expenses	8,348	13,798	(39.5)	13,973	(40.3)	58,255	52,368	11.2
<b>Total Expenditure</b>	<b>55,592</b>	<b>84,551</b>	<b>(34.3)</b>	<b>83,030</b>	<b>(33.0)</b>	<b>3,28,413</b>	<b>3,42,634</b>	<b>(4.2)</b>
<b>PBIDT (Excl. OI)</b>	<b>20,746</b>	<b>29,498</b>	<b>(29.7)</b>	<b>24,427</b>	<b>(15.1)</b>	<b>92,836</b>	<b>73,454</b>	<b>26.4</b>
Other Income	2,788	1,342	107.8	1,979	40.9	6,478	4,650	39.3
Depreciation	6,462	6,884	(6.1)	6,724	(3.9)	27,022	24,507	10.3
<b>EBIT</b>	<b>17,072</b>	<b>23,956</b>	<b>(28.7)</b>	<b>19,682</b>	<b>(13.3)</b>	<b>72,292</b>	<b>53,597</b>	<b>34.9</b>
Interest	3,930	5,029	(21.8)	5,048	(22.1)	19,857	17,779	11.7
<b>EBT (before EO)</b>	<b>13,142</b>	<b>18,927</b>	<b>(30.6)</b>	<b>14,634</b>	<b>(10.2)</b>	<b>52,435</b>	<b>35,818</b>	<b>46.4</b>
Exceptional items	(1,574)	-	-	-	-	-	(1,139)	(100.0)
<b>EBT (after EO)</b>	<b>11,568</b>	<b>18,927</b>	<b>(38.9)</b>	<b>14,634</b>	<b>(20.9)</b>	<b>52,435</b>	<b>34,679</b>	<b>51.2</b>
Tax	3,603	6,118	(41.1)	(17,774)	(120.3)	(5,682)	10,681	(153.2)
Share of P/L of associate and JV (net of tax)	(2)	4	(165.7)	(14)	(84.0)	(12)	5	(327.8)
Minority interest	(11)	2	(609.1)	(34)	(66.9)	(44)	(31)	39.9
<b>RPAT</b>	<b>7,974</b>	<b>12,811</b>	<b>(37.8)</b>	<b>32,428</b>	<b>(75.4)</b>	<b>58,148</b>	<b>24,035</b>	<b>141.9</b>
Adjustment	1,574	-	-	(21,095)	-	(21,095)	1,139	-
<b>APAT</b>	<b>9,548</b>	<b>12,811</b>	<b>(25.5)</b>	<b>11,333</b>	<b>(15.8)</b>	<b>37,054</b>	<b>25,174</b>	<b>47.2</b>
<b>Adj. EPS (Rs)</b>	<b>33.1</b>	<b>44.4</b>	<b>(25.5)</b>	<b>39.3</b>	<b>(15.8)</b>	<b>128.4</b>	<b>87.2</b>	<b>47.2</b>
			<i>bps</i>		<i>bps</i>			<i>bps</i>
EBIDTA Margin (excl. O.I.)	27.2	25.9	131	22.7	444	22.0	17.7	438
NPM (%)	12.5	11.2	128	10.5	196	8.8	6.1	275
Tax Rate (%)	31.1	32.3	(118)	(121.5)	15,260	-10.8	30.8	(4,163)

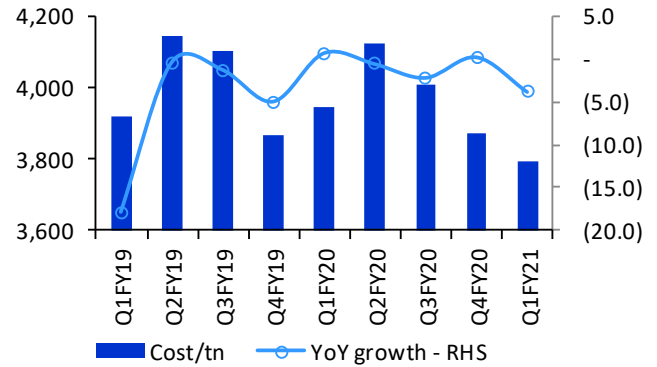
Source: DART, Company

## Key earnings takeaways

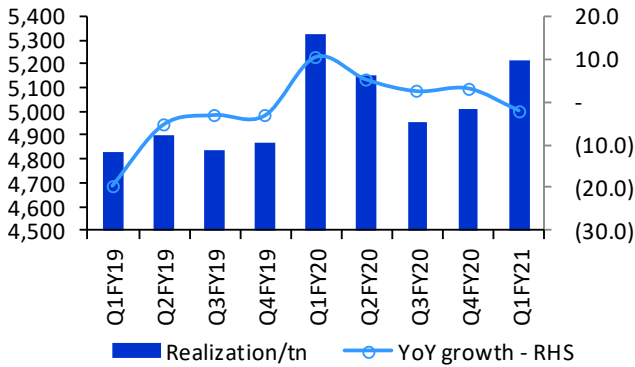
- **Industry** – Cement industry volume declined 30-35% in Q1FY21. Individual Home Buyers (IHB) growing in small towns. Housing demand is at 50% of which 35% is rural demand. Rural areas with population of less than 30,000 is growing well. Central India is a rural IHB market and has grown well vs last year. FY21E can be the best year in terms of profitability. Industry witnessed demand pick up in East, Central, North, TN & Kerala markets whereas weak demand persisted in West, AP, Telangana and Karnataka markets. Western region continues to struggle, demand coming only from metros and road projects.
- **Demand** – Major demand from retail and rural areas. Retail volume share increased 13% YoY to 78%. Blended sales at 78%, +11% YoY. Odisha picking up led by its development activities as a part of rehabilitation program and WB also may pick up led by elections. Demand from large projects coming in Road sector in Northern region. Labour is coming back to urban markets and expect non-trade demand to increase post Diwali.
- **Management outlook** – Positive on rural market driven by good monsoon and good kharif harvesting.
- **Cement Prices** are up 7% in Q1FY21 vs. Q4FY20. Prices can decrease 4-5% from here as monsoon correction is normal.
- **Utilization** – Jul'20 utilization stood at 60-65%. Q1FY21 utilization stood at 46%. East saw highest utilization at 70% whereas lowest was 40%. **Century assets** utilization stood at 70%+ in phases and EBITDA/tn of > Rs900/ tn.
- **Cost** - No further benefit of fuel prices. Green power usage increased to 14% vs. 12% QoQ which will further increase to 20-23% leading to reduction in P&F cost. Diesel prices increased 15% QoQ and its impact will be felt in Q2FY21E. Target to reduce 10% **overheads** cost (Rs5 bn/ year) in FY21E and FY22E each by reducing Ad spends, travel expenses, admin related expenses and maintenance expenses. Current petcoke prices at \$70-75 vs. low of \$55-60. P&F cost was higher by Rs1.5/ unit in Q1FY21 due to frequent switch off and on of plants.
- **Capex** - Increased capex target to Rs15 bn (Rs7-8 bn for maintenance capex) from Rs10 bn earlier for FY21E. 0.6 MT brownfield expansion in Bihar and 0.6 MT WB expansion plans going on but will be delayed. 2.3 MT Dalla clinker plant in UP should be completed in FY22E. Other capex spent will be on 66 MW WHRS plant, railway sidings, phase 2 of Bara grinding unit, Bicharpur coal block, bulk terminal packaging in Mumbai, RMC plants.
- **Debt** – Net Debt reduced by Rs22 bn QoQ and sale of China unit will help reduce further debt. Net Debt/ EBITDA target of 1x. Company has debt of Rs17 bn in overseas companies at a cost of 1.5%.
- Plans to sell **non-core assets** like Dubai unit and loans outstanding in Europe subsidiary. However, not able to find any investors, will wait this quarter and decide.
- Sold 92.5% stake in China's unit and expect sale proceeds of Rs7 bn in Aug'20.
- **White cement & RMC** – Revenue stood at Rs2.5 bn/ Rs1.48 bn for white cement/ RMC.

**Exhibit 7: Volume (mt)**


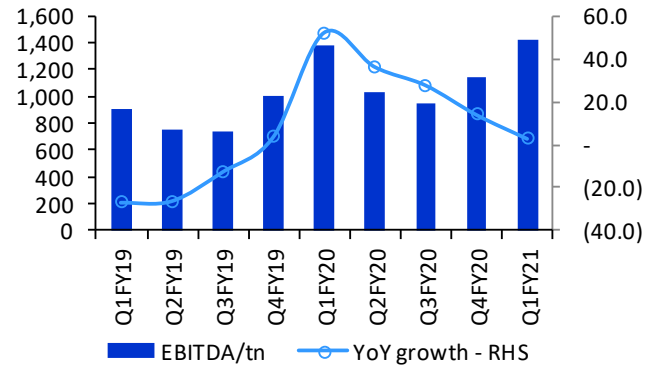
Source: Company, DART

**Exhibit 8: Cost/tn (Rs)**


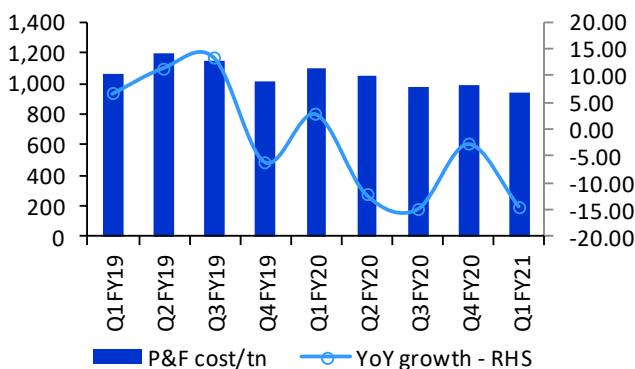
Source: Company, DART

**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
<b>Revenue</b>	<b>4,16,088</b>	<b>4,21,248</b>	<b>3,78,991</b>	<b>4,40,199</b>
<b>Total Expense</b>	<b>3,42,619</b>	<b>3,28,413</b>	<b>2,91,942</b>	<b>3,37,496</b>
COGS	2,67,337	2,45,064	2,18,554	2,54,177
Employees Cost	22,911	25,094	24,091	25,777
Other expenses	52,371	58,255	49,297	57,542
<b>EBIDTA</b>	<b>73,469</b>	<b>92,836</b>	<b>87,050</b>	<b>1,02,703</b>
Depreciation	24,507	27,022	28,084	29,250
<b>EBIT</b>	<b>48,962</b>	<b>65,814</b>	<b>58,966</b>	<b>73,453</b>
Interest	17,779	19,857	16,386	15,591
Other Income	4,634	6,478	9,069	9,522
Exc. / E.O. items	(1,139)	0	(1,574)	0
<b>EBT</b>	<b>34,685</b>	<b>52,423</b>	<b>50,077</b>	<b>67,387</b>
Tax	10,681	(5,682)	15,023	20,216
RPAT	24,041	58,148	35,054	47,171
Minority Interest	(31)	(44)	0	0
<b>Profit/Loss share of associates</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>25,174</b>	<b>37,054</b>	<b>36,137</b>	<b>47,171</b>

**Balance Sheet**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Sources of Funds</b>				
Equity Capital	2,746	2,886	2,886	2,886
Minority Interest	122	75	75	75
Reserves & Surplus	3,34,760	3,88,269	4,19,570	4,62,412
<b>Net Worth</b>	<b>3,37,507</b>	<b>3,91,155</b>	<b>4,22,456</b>	<b>4,65,298</b>
Total Debt	2,53,370	2,28,979	2,07,979	1,76,979
Net Deferred Tax Liability	64,114	49,120	49,120	49,120
<b>Total Capital Employed</b>	<b>6,55,112</b>	<b>6,69,329</b>	<b>6,79,631</b>	<b>6,91,472</b>

**Applications of Funds**

Net Block	5,04,447	5,07,632	4,96,548	4,87,298
CWIP	73,720	71,620	71,620	76,620
Investments	13,862	16,618	16,618	16,618
<b>Current Assets, Loans &amp; Advances</b>	<b>1,73,347</b>	<b>1,97,502</b>	<b>2,01,550</b>	<b>2,24,714</b>
Inventories	40,990	41,483	37,380	42,211
Receivables	27,870	22,383	22,843	25,327
Cash and Bank Balances	7,397	5,392	21,808	29,164
Loans and Advances	13,541	14,294	13,344	12,394
Other Current Assets	68,384	71,513	66,174	73,619
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,10,262</b>	<b>1,24,042</b>	<b>1,06,705</b>	<b>1,13,778</b>
Payables	31,597	35,014	28,035	28,945
Other Current Liabilities	78,665	89,028	78,670	84,834
	<i>sub total</i>			
Net Current Assets	63,084	73,459	94,845	1,10,936
<b>Total Assets</b>	<b>6,55,112</b>	<b>6,69,329</b>	<b>6,79,631</b>	<b>6,91,472</b>

E – Estimates



**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	35.7	41.8	42.3	42.3
EBIDTA Margin	17.7	22.0	23.0	23.3
EBIT Margin	11.8	15.6	15.6	16.7
Tax rate	30.8	(10.8)	30.0	30.0
Net Profit Margin	6.1	8.8	9.5	10.7
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	64.3	58.2	57.7	57.7
Employee	5.5	6.0	6.4	5.9
Other	12.6	13.8	13.0	13.1
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.8	0.6	0.5	0.4
Interest Coverage	2.8	3.3	3.6	4.7
Inventory days	36	36	36	35
Debtors days	24	19	22	21
Average Cost of Debt	7.9	8.2	7.5	8.1
Payable days	28	30	27	24
Working Capital days	55	64	91	92
FA T/O	0.8	0.8	0.8	0.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	87.2	128.4	125.2	163.4
CEPS (Rs)	172.1	222.0	222.5	264.8
DPS (Rs)	12.0	13.2	13.0	15.0
Dividend Payout (%)	13.8	10.3	10.4	9.2
BVPS (Rs)	1169.4	1355.2	1463.7	1612.1
RoANW (%)	8.4	10.2	8.9	10.6
RoACE (%)	7.5	11.8	7.9	9.2
RoAIC (%)	8.6	10.0	8.9	11.1
<b>(E) Valuation Ratios</b>				
CMP (Rs)	4136	4136	4136	4136
P/E	47.4	32.2	33.0	25.3
Mcap (Rs Mn)	11,93,854	11,93,854	11,93,854	11,93,854
MCap/ Sales	2.9	2.8	3.2	2.7
EV	14,24,663	13,75,005	13,40,025	12,99,670
EV/Sales	3.4	3.3	3.5	3.0
EV/EBITDA	19.4	14.8	15.4	12.7
P/BV	3.5	3.1	2.8	2.6
Dividend Yield (%)	0.3	0.3	0.3	0.4
<b>(F) Growth Rate (%)</b>				
Revenue	34.3	1.2	(10.0)	16.2
EBITDA	19.6	26.4	(6.2)	18.0
EBIT	13.9	34.4	(10.4)	24.6
PBT	5.1	51.1	(4.5)	34.6
APAT	(2.0)	47.2	(2.5)	30.5
EPS	(2.0)	47.2	(2.5)	30.5
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>
CFO	59,557	89,020	67,583	80,515
CFI	12,704	(41,151)	(10,029)	(22,239)
CFF	(67,568)	(49,911)	(41,138)	(50,920)
FCFF	41,995	71,958	50,583	55,515
Opening Cash	2,191	7,397	5,392	21,808
Closing Cash	7,397	5,392	21,808	29,164

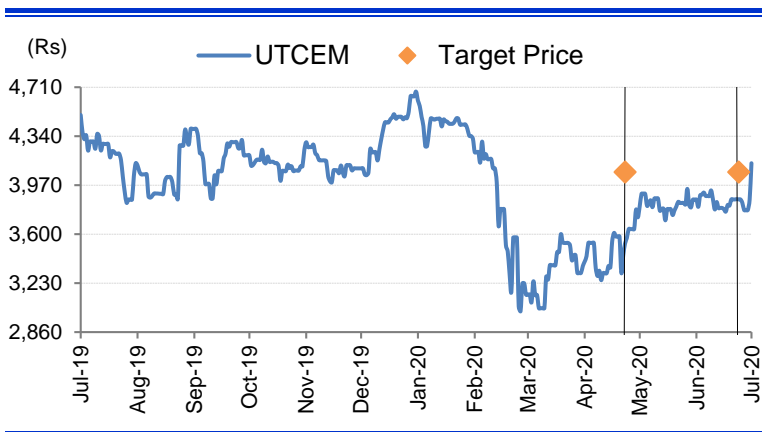
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-20	Accumulate	4,069	3,529
Jul-20	Accumulate	4,069	3,863

\*Price as on recommendation date

### DART Team

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