

# Ultratech Cement

Refer to important disclosures at the end of this report

## Stellar performance despite challenges; debt reduction continues

CMP: Rs 4,136

as of (July 28, 2020)

TP: Rs 4,949 (▲)

12 months

Rating: BUY (■)

Upside: 19.6 %

We appreciate your support in the [Asiamoney Brokers Poll 2020](#)

- UTCEM's Q1 results beat estimates, boosted by higher grey cement realization (up 9.2% qoq vs. estimated 6.8%) and lower opex. Consolidated EBITDA came in at Rs20.7bn vs. estimated Rs16.9bn, while EBITDA/ton stood at Rs1,416 vs. estimated Rs1,159.
- Key positives: 1) 21% yoy fall in fixed costs; 2) Rs22.1bn reduction in net debt, and net debt/EBITDA of 1.44x vs. 1.55x in Q4FY20; 3) 4% yoy/2.4% qoq decline in Opex/ton; and 4) record high EBITDA/ton of Rs1,416 (up 2.8% yoy). Key negative was a 40% yoy decline in white cement segment's volume and 73% yoy decline in RMC revenues.
- Management believes that the 10% reduction in overheads is sustainable. The utilization of its plants is at 60-65% vs. 64% in July'19. Capex guidance has been increased to Rs15bn vs. Rs10bn earlier (to be spent on WHRS, etc.) as the outlook has improved.
- We raise EBITDA estimates by 30.7%/16.2%/15.9% for FY21/22/23 on higher realization and cost savings. UTCEM will benefit from cost reduction initiatives. Debt reduction will help in improving the balance sheet further. UltraTech remains our preferred large-cap pick with a Buy rating and OW in sector EAP.

**Higher realization and cost reduction helps; lockdown impacts volumes:** UTCEM benefitted from price increases across India in Q1 and reported a 9.2% yoy rise in grey cement realization. Increase in blended realization was capped at 4% qoq as revenues from white cement/RMC segments declined 39%/73% yoy. Sales volume (including Century Cement) was down 32% yoy with the capacity utilization of 46%. Cost-saving initiatives led to a 21% yoy reduction in fixed costs, and management believes that 10% of cost savings will sustain. Employee cost was down 6% yoy/14.4% qoq. Variable cost/ton was down Rs80/ton yoy. Energy cost/ton fell 14.5% yoy, whereas freight cost/ton declined 9.5% yoy. Other expense/ton declined 10.8% yoy. Cost savings led to a 4% yoy/2.4% qoq reduction in opex/ton. EBITDA fell 29.7% yoy, though OPM improved 1.4pp yoy. EBITDA/ton came in at a record high of Rs1,416 (up 2.8% yoy/26.2% qoq). Adjusted for EO items (incentives reversal of prior periods), profit fell 25.5% yoy.

**Raise estimates; remains preferred large-cap pick:** We raise EBITDA estimates by 30.7%/16.2%/15.9% for FY21/22/23 on higher grey cement volumes/realization and cost savings strategies. The current volume trend in North, Central and East regions remains better than our earlier expectations and the capacity utilization of UTCEM plants for July'20 remains similar to July'19 levels. UTCEM's focus continues to be on improving operational efficiencies via measures such as increased use of green energy (target is to achieve 22-23% vs. 14% now). Consolidated net debt fell by Rs22.1bn in Q1FY21. Net debt/EBITDA for India operations stands at 1.44x vs. 1.55x/2.64x in FY20/FY19-end. We maintain Buy/OW, with a revised TP of Rs4,949 (14x mid-FY23E EV/EBITDA vs. Jun'22E earlier; 10-year average multiple has been 14.5x) vs. Rs3,974 earlier. Key risks: 1) a steep fall in cement prices 2) a sharp decline in industry's demand growth.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Cement & Building Materials \(page 10\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,16,088	4,21,248	3,79,772	4,41,703	4,89,404
EBITDA	73,469	92,836	85,458	99,863	1,12,473
EBITDA Margin (%)	17.7	22.0	22.5	22.6	23.0
APAT	25,137	41,036	34,560	46,514	56,166
EPS (Rs)	91.5	142.2	119.7	161.2	194.6
EPS (% chg)	(5.3)	57.8	(15.8)	34.6	20.8
ROE (%)	8.2	11.3	8.5	10.5	11.5
P/E (x)	45.9	29.1	34.5	25.7	21.3
EV/EBITDA (x)	18.6	14.8	15.5	12.8	10.9
P/BV (x)	3.4	3.1	2.8	2.6	2.3

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	109/45
Target Price change (%)	24.5
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	119.7	161.2
Consensus	123.7	168.0
Mean Consensus TP (12M)	Rs 4,148	

### Stock Details

Bloomberg Code	UTCEM IN
Face Value (Rs)	10
Shares outstanding (mn)	289
52 Week H/L	4,754 / 2,910
M Cap (Rs bn/USD bn)	1,194 / 15.95
Daily Avg Volume (nos.)	5,98,952
Daily Avg Turnover (US\$ mn)	29.6

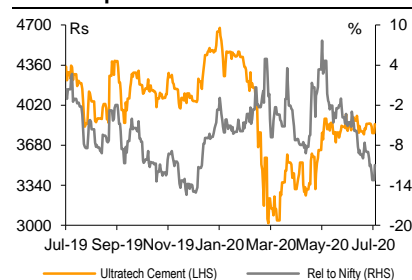
### Shareholding Pattern Jun '20

Promoters	60.0%
FIIIs	16.1%
DIIIs	14.6%
Public and Others	9.3%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	7	22	(10)	(8)
Rel. to Nifty	(2)	1	(4)	(8)

### Relative price chart



Source: Bloomberg

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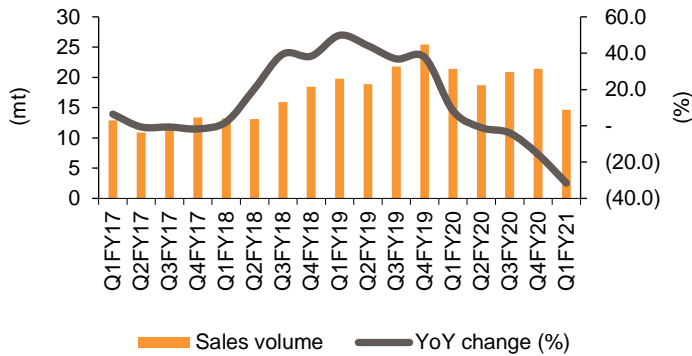
**Sanjeev Kumar Singh**

sanjeev.singh@emkayglobal.com

+91 22 6612 1255

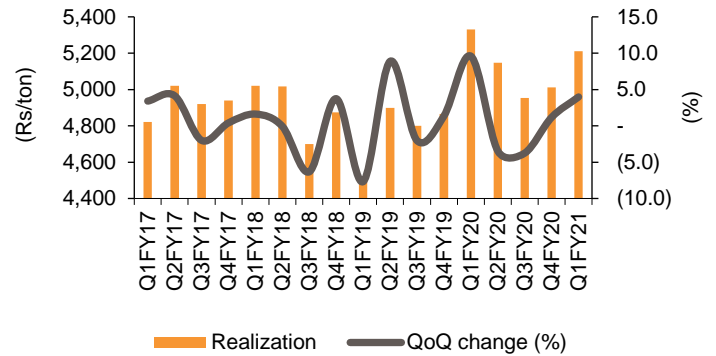
## Story in Charts

**Exhibit 1: Sales volume (including Century) declines 31.6% yoy**



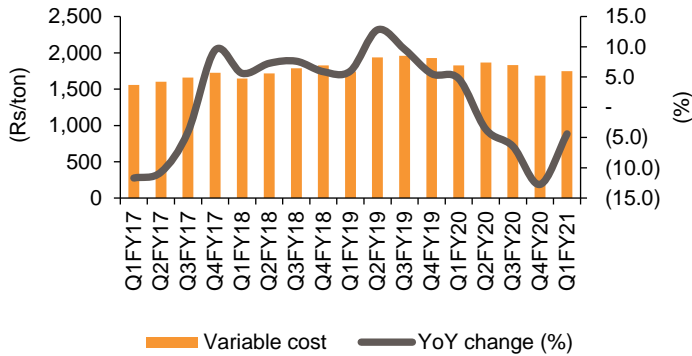
Source: Emkay Research, Company

**Exhibit 2: Blended realization up 4% qoq on 9.2% qoq increase in grey cement realization**



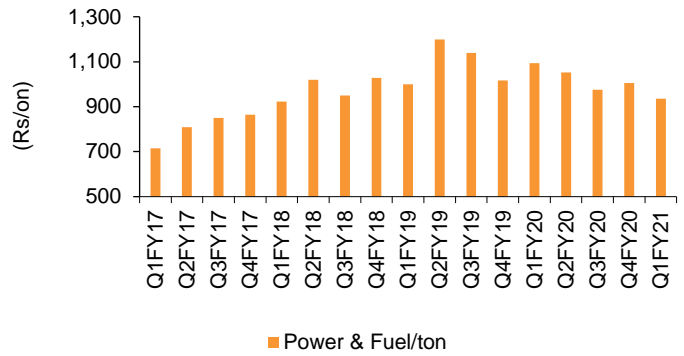
Source: Emkay Research, Company

**Exhibit 3: Variable cost/ton down Rs80 yoy; but up Rs63 qoq**



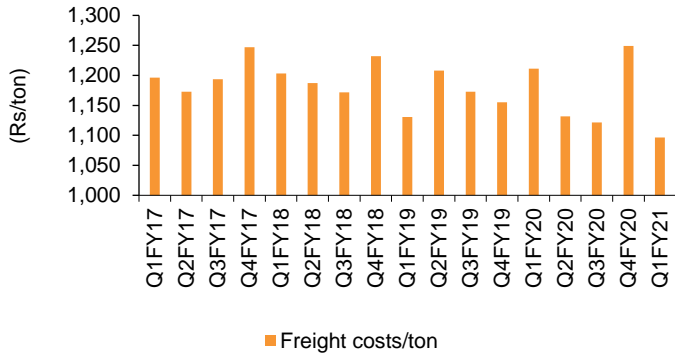
Source: Emkay Research, Company

**Exhibit 4: Energy cost/ton down 14.5% yoy/6.9% qoq**



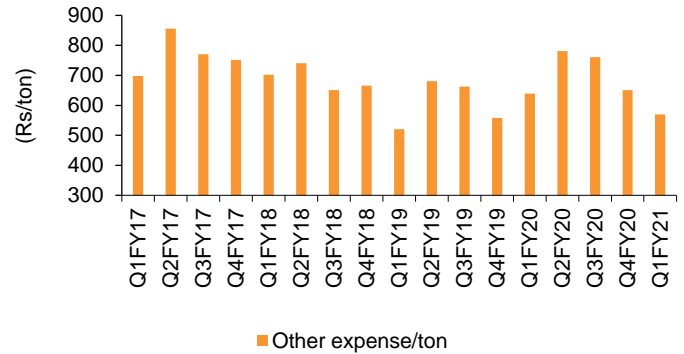
Source: Emkay Research, Company

**Exhibit 5: Freight cost/ton down 9.5% yoy/12.3% qoq**



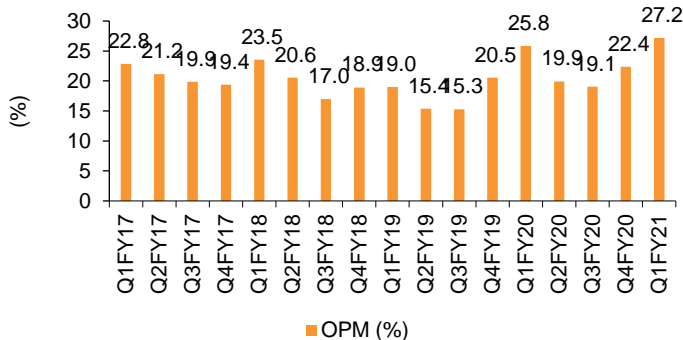
Source: Emkay Research, Company

**Exhibit 6: Other expenses/ton down 10.8% yoy/12.5% qoq**



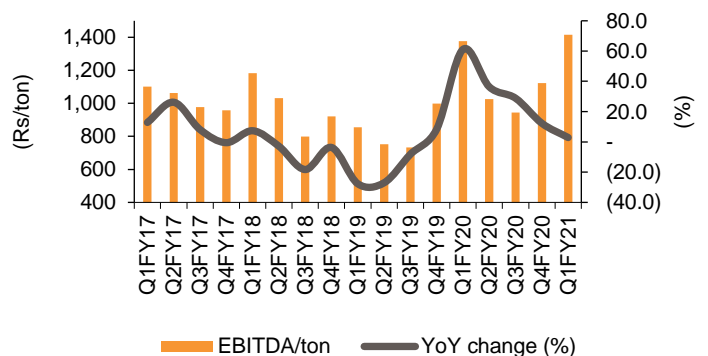
Source: Emkay Research, Company

**Exhibit 7: Consolidated OPM expands 1.4pp yoy/4.8pp qoq**



Source: Company, Emkay Research

**Exhibit 8: Historical high EBITDA/ton of Rs1,416 (up 2.8% yoy)**



Source: Company, Emkay Research

**Exhibit 9: Actual vs estimates (Q1FY21)**

Consolidated (in Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	76,338	75,823	75,598	0.7	1.0	In line with estimates
EBITDA	20,746	16,885	16,539	22.9	25.4	Effect of higher grey cement realization and lower opex
EBITDA margin (%)	27.2	22.3	21.9	491bps	530bps	
Adj. PAT	9,539	5,895	5,567	61.8	71.3	Effect of higher operating profit and other income

Source: Company, Emkay Research, Bloomberg

**Exhibit 10: Quarterly Results (Standalone)**

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
<b>Revenue</b>	<b>110,369</b>	<b>92,700</b>	<b>99,818</b>	<b>103,594</b>	<b>73,736</b>	<b>(33.2)</b>	<b>(28.8)</b>	<b>406,481</b>	<b>394,451</b>	<b>3.0</b>
<b>Expenditure</b>	<b>82,460</b>	<b>74,574</b>	<b>80,625</b>	<b>81,273</b>	<b>54,185</b>	<b>(34.3)</b>	<b>(33.3)</b>	<b>318,933</b>	<b>324,659</b>	<b>(1.8)</b>
as % of sales	75%	80%	81%	78%	73%			78%	82%	
Consumption of RM	10,752	10,361	13,597	11,284	9,624	(10.5)	(14.7)	45,994	50,870	(9.6)
as % of sales	10%	11%	14%	11%	13%			11%	13%	
Employee Expenses	5,543	5,929	5,767	6,123	5,176	(6.6)	(15.5)	23,362	21,276	9.8
as % of sales	5%	6%	6%	6%	7%			6%	5%	
Power, Oil & Fuel	21,343	17,939	18,413	19,324	12,349	(42.1)	(36.1)	77,018	86,993	(11.5)
as % of sales	19%	19%	18%	19%	17%			19%	22%	
Freight & Handling	25,699	21,235	23,397	26,411	15,905	(38.1)	(39.8)	96,742	99,773	(3.0)
as % of sales	23%	23%	23%	25%	22%			24%	25%	
Other Expenses	19,124	19,110	19,451	18,131	11,132	(41.8)	(38.6)	75,817	65,747	15.3
as % of sales	17%	21%	19%	18%	15%			19%	17%	
<b>EBITDA</b>	<b>27,909</b>	<b>18,126</b>	<b>19,193</b>	<b>22,321</b>	<b>19,552</b>	<b>(29.9)</b>	<b>(12.4)</b>	<b>87,548</b>	<b>69,793</b>	<b>25.4</b>
Depreciation	6,260	6,063	6,137	5,861	5,887	(6.0)	0.4	24,320	22,802	6.7
<b>EBIT</b>	<b>21,649</b>	<b>12,063</b>	<b>13,056</b>	<b>16,460</b>	<b>13,665</b>	<b>(36.9)</b>	<b>(17.0)</b>	<b>63,228</b>	<b>46,991</b>	<b>34.6</b>
Other Income	1,572	1,820	1,640	2,239	2,961	88.4	32.2	7,271	4,918	47.9
Interest	4,321	4,372	4,026	3,745	3,334	(22.8)	(11.0)	16,463	16,184	1.7
<b>PBT</b>	<b>18,900</b>	<b>9,511</b>	<b>10,670</b>	<b>14,954</b>	<b>13,292</b>	<b>(29.7)</b>	<b>(11.1)</b>	<b>54,036</b>	<b>35,725</b>	<b>51.3</b>
Total Tax	6,231	3,119	2,907	2,466	3,663	(41.2)	48.5	14,723	11,139	32.2
<b>Adjusted PAT</b>	<b>12,669</b>	<b>6,392</b>	<b>7,764</b>	<b>12,488</b>	<b>9,629</b>	<b>(24.0)</b>	<b>(22.9)</b>	<b>39,313</b>	<b>24,586</b>	<b>59.9</b>
Extra ordinary items	0	0	1,332	(16,575)	(1,574)			(15,243)	0	
<b>Reported PAT</b>	<b>12,669</b>	<b>6,392</b>	<b>6,432</b>	<b>29,063</b>	<b>11,203</b>	<b>(11.6)</b>	<b>(61.5)</b>	<b>54,555</b>	<b>24,586</b>	<b>121.9</b>
<b>Adjusted EPS (Rs)</b>	<b>46.1</b>	<b>23.3</b>	<b>28.3</b>	<b>45.5</b>	<b>35.1</b>	<b>(24.0)</b>	<b>(22.9)</b>	<b>143.1</b>	<b>89.6</b>	<b>59.8</b>

Margins (%)						bps	bps			bps
EBIDTA	25.3	19.6	19.2	21.5	26.5	123	497	21.5	17.7	384
EBIT	19.6	13.0	13.1	15.9	18.5	(108)	264	15.6	11.9	364
EBT	17.1	10.3	10.7	14.4	18.0	90	359	13.3	9.1	424
PAT	11.5	6.9	7.8	12.1	13.1	158	100	9.7	6.2	344
Effective Tax rate	33.0	32.8	27.2	16.5	27.6	(541)	1,107	27.2	31.2	(393)

Source: Company, Emkay Research

**Exhibit 11: Operating cost analysis on per ton basis (Rs)**

Particulars (Rs/ton)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Cement Volumes (mt)	20.5	17.8	20.0	20.5	13.9	(31.9)	(32.1)	78.8	80.9	(2.7)
Raw Material Consumed	617	624	617	661	530	(14.1)	(19.8)	630	634	(0.6)
Stock Adjustment	(92)	(40)	63	(111)	160	n/m	n/m	(46)	(5)	n/m
Purchase of Finished Goods	308	318	283	245	235	(23.5)	(3.8)	287	196	46.9
Employee Expenses	271	334	288	298	371	37.1	24.4	297	263	12.8
Power, Oil & Fuel	1,043	1,009	921	942	886	(15.0)	(5.9)	978	1,075	(9.0)
Freight	1,255	1,195	1,170	1,287	1,141	(9.1)	(11.4)	1,228	1,233	(0.4)
Other Expenses	627	757	690	639	563	(10.1)	(11.8)	963	813	18.5
Total Cost	4,028	4,197	4,031	3,961	3,887	(3.5)	(1.9)	4,049	4,013	0.9
Realization (Grey Cement)	5,074	4,849	4,648	4,711	5,144	1.4	9.2	4,676	4,371	7.0
Realization (Blended)	5,392	5,217	4,991	5,048	5,290	(1.9)	4.8	5,161	4,875	5.9
EBIDTA	1,363	1,020	960	1,088	1,403	2.9	28.9	1,112	863	28.9

Source: Company, Emkay Research

**Exhibit 12: Quarterly Results (Consolidated)**

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
<b>Revenue</b>	<b>114,197</b>	<b>96,205</b>	<b>103,538</b>	<b>107,447</b>	<b>76,338</b>	<b>(33.2)</b>	<b>(29.0)</b>	<b>421,387</b>	<b>409,641</b>	<b>2.9</b>
<b>Expenditure</b>	<b>84,705</b>	<b>77,024</b>	<b>83,808</b>	<b>83,395</b>	<b>55,592</b>	<b>(34.4)</b>	<b>(33.3)</b>	<b>328,931</b>	<b>337,170</b>	<b>(2.4)</b>
as % of sales	74.2	80.1	80.9	77.6	72.8			78%	82%	
Consumption of RM	15,691	15,238	17,881	14,540	11,873	(24.3)	(18.3)	63,350	69,657	(9.1)
as % of sales	13.7	15.8	17.3	13.5	15.6			15%	17%	
Employee Expenses	5,961	6,384	6,200	6,550	5,604	(6.0)	(14.4)	25,095	22,610	11.0
as % of sales	5.2	6.6	6.0	6.1	7.3			6%	6%	
Power, Oil & Fuel	23,432	19,658	20,394	21,556	13,708	(41.5)	(36.4)	85,040	93,089	(8.6)
as % of sales	20.5	20.4	19.7	20.1	18.0			20%	23%	
Freight & Handling	25,941	21,155	23,438	26,786	16,059	(38.1)	(40.0)	97,319	100,063	(2.7)
as % of sales	22.7	22.0	22.6	24.9	21.0			23%	24%	
Other Expenses	13,680	14,590	15,894	13,964	8,348	(39.0)	(40.2)	58,127	51,751	12.3
as % of sales	12.0	15.2	15.4	13.0	10.9			14%	13%	
<b>EBITDA</b>	<b>29,493</b>	<b>19,181</b>	<b>19,730</b>	<b>24,053</b>	<b>20,746</b>	<b>(29.7)</b>	<b>(13.7)</b>	<b>92,456</b>	<b>72,472</b>	<b>27.6</b>
Depreciation	6,884	6,684	6,730	6,434	6,462	(6.1)	0.4	26,732	24,097	10.9
<b>EBIT</b>	<b>22,609</b>	<b>12,497</b>	<b>13,000</b>	<b>17,619</b>	<b>14,284</b>	<b>(36.8)</b>	<b>(18.9)</b>	<b>65,725</b>	<b>48,374</b>	<b>35.9</b>
Other Income	1,347	1,537	1,682	1,979	2,788	107.0	40.9	6,545	4,584	42.8
Interest	5,029	5,071	4,708	4,351	3,930	(21.8)	(9.7)	19,160	17,478	9.6
<b>PBT</b>	<b>18,927</b>	<b>8,962</b>	<b>9,973</b>	<b>15,247</b>	<b>13,142</b>	<b>(30.6)</b>	<b>(13.8)</b>	<b>53,110</b>	<b>35,480</b>	<b>49.7</b>
Total Tax	6,118	3,113	2,862	2,466	3,603	(41.1)	46.1	14,559	11,020	32.1
<b>Adjusted PAT</b>	<b>12,809</b>	<b>5,849</b>	<b>7,111</b>	<b>12,781</b>	<b>9,539</b>	<b>(25.5)</b>	<b>(25.4)</b>	<b>38551</b>	<b>24460</b>	<b>57.6</b>
Extra ordinary items	-	(62)	(1,332)	19,627	(1,574)			18,234	0	
<b>Reported PAT</b>	<b>12,809</b>	<b>5,788</b>	<b>5,779</b>	<b>32,408</b>	<b>7,965</b>	<b>(37.8)</b>	<b>(75.4)</b>	<b>20318</b>	<b>24460</b>	<b>(16.9)</b>
(Profit)/loss from JV's/Ass/MI	4	(2)	1	-	-			2.1	3.6	
<b>PAT after MI</b>	<b>12,813</b>	<b>5,785</b>	<b>5,780</b>	<b>32,408</b>	<b>7,965</b>	<b>(37.8)</b>	<b>(75.4)</b>	<b>56,787</b>	<b>24,464</b>	<b>132.1</b>
<b>Adjusted EPS (Rs)</b>	<b>46.7</b>	<b>21.3</b>	<b>25.9</b>	<b>46.5</b>	<b>34.7</b>	<b>(25.5)</b>	<b>(25.5)</b>	<b>140.3</b>	<b>89.1</b>	<b>57.6</b>

Margins (%)						bps	bps			bps
EBIDTA	25.8	19.9	19.1	22.4	27.2	135	479	21.9	17.7	425
EBIT	19.8	13.0	12.6	16.4	18.7	(109)	231	15.6	11.8	379
EBT	16.6	9.3	9.6	14.2	17.2	64	303	12.6	8.7	394
PAT	11.2	6.1	6.9	11.9	12.5	128	60	9.1	6.0	318
Effective Tax rate	32.3	34.7	28.7	16.2	27.4	(491)	1,124	27.4	31.1	(365)

Source: Company, Emkay Research

**Exhibit 13: Operating cost analysis on per ton basis (Rs)**

Particulars (Rs/ton)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY20	FY19	YoY (%)
Cement Volumes (mt)	20.5	17.8	20.0	20.5	13.9	(31.9)	(32.1)	78.8	80.9	(2.7)
Raw Material Consumed	617	624	617	661	530	(14.1)	(19.8)	630	634	(0.6)
Stock Adjustment	(92)	(40)	63	(111)	160	n/m	n/m	(46)	(5)	n/m
Purchase of Finished Goods	308	318	283	245	235	(23.5)	(3.8)	287	196	46.9
Employee Expenses	271	334	288	298	371	37.1	24.4	297	263	12.8
Power, Oil & Fuel	1,043	1,009	921	942	886	(15.0)	(5.9)	978	1,075	(9.0)
Freight	1,255	1,195	1,170	1,287	1,141	(9.1)	(11.4)	1,228	1,233	(0.4)
Other Expenses	627	757	690	639	563	(10.1)	(11.8)	963	813	18.5
<b>Total Cost</b>	<b>4,028</b>	<b>4,197</b>	<b>4,031</b>	<b>3,961</b>	<b>3,887</b>	<b>(3.5)</b>	<b>(1.9)</b>	<b>4,049</b>	<b>4,013</b>	<b>0.9</b>
Realization (Grey Cement)	5,074	4,849	4,648	4,711	5,144	1.4	9.2	4,676	4,371	7.0
Realization (Blended)	5,392	5,217	4,991	5,048	5,290	(1.9)	4.8	5,161	4,875	5.9
<b>EBIDTA</b>	<b>1,363</b>	<b>1,020</b>	<b>960</b>	<b>1,088</b>	<b>1,403</b>	<b>2.9</b>	<b>28.9</b>	<b>1,112</b>	<b>863</b>	<b>28.9</b>

Source: Company, Emkay Research

## Changes in estimates

The recovery in cement demand after easing of the lockdown has surprised positively in the North, Central and East regions. Our channel checks indicate that demand in these regions remains better than our estimates even in July'20. There has been an improvement in demand in a few South/West markets compared to June'20. We have increased grey cement volume assumptions by 1.4%/1.8%/1.4% for FY21/22/23E. However, we have reduced revenue of RMC by 15%/10%/8% for FY21/22/23E and white cement by 5% each for FY21-23E.

Our channel checks had indicated a 7% qoq improvement in cement prices during Q1FY21, which was better than our expectations of 1% qoq growth. Though there was some seasonal weakness in cement prices in July'20 (management indicated a 4-5% qoq decline), we raise realization assumptions by 1.4%/1.1%/1.2% for FY21/22/23E on better-than-expected cement prices in YTD FY21.

We reduce other expenses by 10% each for FY21-23E as management believes that at least 10% cost reduction is sustainable in nature. These changes lead to a 30.7%/16.2%/15.9% increase in EBITDA estimates for FY21/22/23. We have increased other income on higher cash generation. Profit estimates are increased by 109.4%/45.2%/37% for FY21/22/23.

Exhibit 14: Change in estimates

Particulars (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	Chg (%)	Earlier	Revised	Chg (%)	Earlier	Revised	Chg (%)
Volume (mt)	71.8	72.8	1.4	81.2	82.7	1.8	88.5	89.7	1.4
Realization (Rs/ton)	4,310	4,372	1.4	4,396	4,446	1.1	4,484	4,538	1.2
Sales	367,179	379,772	3.4	445,572	441,703	(0.9)	487,308	489,404	0.4
EBIDTA	65,375	85,458	30.7	85,939	99,863	16.2	97,060	112,473	15.9
EBIDTA (%)	17.8	22.5	470	19.3	22.6	332	19.9	23.0	306
Net Profit	16,508	34,560	109.4	32,040	46,514	45.2	41,000	56,166	37.0
EPS (Rs)	57.2	119.7	109.4	111.0	161.2	45.2	142.1	194.6	37.0

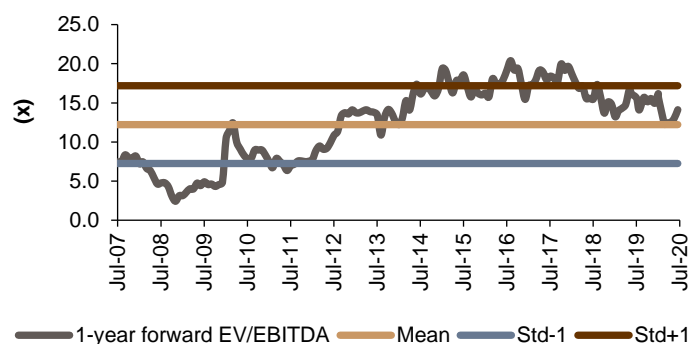
Source: Company, Emkay Research

Exhibit 15: Peer Valuation

Company	Rs bn Mcap	EV/EBITDA (x)			EV/Ton (USD)			EPS (Rs)			P/E (x)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
UltraTech Cement	1,194	15.5	12.8	10.9	134	130	124	119.7	161.2	194.6	34.5	25.7	21.3
ACC*	263	9.8	8.2	7.4	85	84	83	60.7	73.0	80.9	23.0	19.1	17.3
Ambuja Cements*	430	13.2	11.0	9.4	132	120	114	7.6	8.5	9.6	28.7	25.4	22.5
India Cements	36	11.2	9.6	7.9	59	57	54	2.3	4.1	6.7	51.2	28.3	17.3
Ramco Cements	168	21.9	17.5	14.9	138	130	128	12.5	17.3	23.1	57.2	41.2	30.9
Shree Cements	764	30.9	23.0	18.9	224	211	206	118.7	278.9	394.9	184.6	78.6	55.5
JK Lakshmi Cement	34	10.2	7.3	5.7	48	46	43	6.4	15.6	22.6	45.9	18.7	12.9
JK Cement	115	15.0	12.8	11.3	129	130	131	28.3	41.0	52.7	52.8	36.4	28.4
Orient Cement	14	9.7	7.6	6.0	41	40	38	0.3	2.3	4.4	195.2	28.5	15.0
Prism Cement	23	13.0	8.6	7.7	79	79	78	-1.0	1.1	1.8	-45.0	42.9	26.0
Star Cement	35	9.3	6.9	6.1	79	74	70	5.5	7.2	7.7	15.2	11.8	11.0
Birla Corp	47	10.1	7.6	6.3	71	61	56	11.1	36.8	44.8	54.6	16.5	13.5

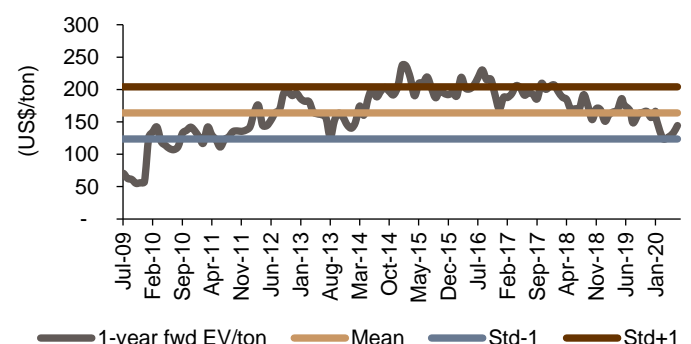
Source: Company, Emkay Research, \*Dec-ending companies

Exhibit 16: 1-yr forward EV/EBITDA chart



Source: Company, Emkay Research

Exhibit 17: 1-yr forward EV/Ton chart



Source: Company, Emkay Research



## Concall highlights

- **Demand and capacity utilization:** Capacity utilization in July'20 stands at 60-65% vs. 64% in July'19. Demand remains buoyant after easing of lockdowns in April'20; however, sporadic lockdowns create uncertainty. Management despite being optimistic on demand opportunities did not throw any volume guidance. After easing of lockdowns, demand continued to improve in North, Central, East, Tamil Nadu and Kerala markets, with a pick-up in demand from the IHB segment. This is reflected in higher trade sales and higher share of blended sales in Q1. Rural demand is expected to remain strong on the back of better monsoon, higher sowing of Kharif crops and increase in rural income. Growth in East markets was better with the average utilization of 70% in Q1 (average capacity utilization of UTCEM was 46%, with utilization being 40-70% across regions). Despite lower number of operational days, UTCEM's volume in the Central region achieved growth over last year. Volume in the East region is expected to improve in Odisha and West Bengal (state elections are expected to be held in May'21 and pre-election work will drive demand). Infrastructure demand mainly roads has started picking up (up 3x compared to April levels but has not achieved the pre-Covid level). Demand in metros (South and West markets) will pick up when the migrant laborers return (mostly after Diwali).
- **Demand break-up:** Housing sector contributes to 60% of total demand of which 10% is from metros, 35% from rural areas (any town with a population of 30k), while 15% comes from other cities.
- **Cost reduction:** Fixed cost was down 21% yoy in Q1 (Rs9.9bn vs. Rs12.3bn). Sustainable cost reduction will be 10% in FY21E and this would be achieved through reduction in employee costs, administration costs, ad-spends and maintenance costs. Savings of Rs5bn will be achieved in overheads in FY21E (on current capacities). Pet coke prices have increased to US\$70-75/ton from US\$55-60/ton and hence, there are no major saving expected in energy costs from current levels. However, there will be some improvement in pet coke and electricity consumption (increased 1.5units qoq in Q1) due to improving utilization.
- **Update on Century Assets:** Century assets are now operating at par with UTCEM's earlier capacities across regions. These assets operated at 70%+ capacity utilization in May/June '20, with opex reduction of Rs105/ton over Q4FY20. Pet coke usage was at 73% vs. 69% in Q4FY20. The company is working to improve brand transition and maintains the guidance to improve it to 84% by Q3FY21 (excluding 2.4mt Baikunth plant, the production from which will be continued as Birla Gold for some time). EBITDA/ton of Century's plants was over Rs900/ton vs. Rs575/ton in Q4FY20.
- **Capacity additions:** Capex guidance for FY21E has been increased to Rs15bn (maintenance capex of Rs7-8bn) from Rs10bn earlier as the condition in economic activity has improved compared to last quarter. The grinding unit of 0.6mt each in Dhankuni, West Bengal, and Patna, Bihar, will be commissioned by March'21. The Cuttack grinding unit (2.2mt) will now be completed in FY22E. The approval to start the clinkerization unit (Dalla, UP) of 2.3mt is on track and the plant should be operational by March'21. Development of Bicharpur, MP coal mines should be completed in FY21. WHRS capacity of 66MW will be added at 7 plants and the share of WHRS in electricity will improve to 22-23% from 14% as of now. Work on the expansion plan in the North region (Pali, Rajasthan) has to be started in FY22E as the mining lease will expire by end-FY22 and this plant should be commissioned by Q3FY23E.
- **Cement prices:** Cement prices were up 7% qoq in Q1FY21, however, current prices are down 4-5% qoq due to the monsoon season. Management believes that EBITDA/ton should improve in FY21.
- **Leverage levels:** UTCEM generated strong free cash flow of Rs60bn in the last 9 months, which helped cut net debt. In Q1FY21, consolidated net debt fell by Rs22.1bn (Rs146.5bn vs. Rs168.6bn at March'20). This has also been achieved through a tight control on Working capital (Rs14.3bn reduction in H2FY20 and Rs7.9bn reduction in Q1FY21). Net debt/EBITDA for India operations stands at 1.44x vs. 2.64x/1.55x in FY19/FY20-end. UTCEM will receive Rs7.5bn from the sale of China assets in Q2FY21E, which will help reduce net debt. Target net debt/EBITDA stands at 1x.
- **Trade sales:** Trade sales were at 78%, an improvement of 13pp yoy. Blended cement sales rose 11pp yoy to 78%. This will come down when demand from the infrastructure segment picks up.

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>4,16,088</b>	<b>4,21,248</b>	<b>3,79,772</b>	<b>4,41,703</b>	<b>4,89,404</b>
<b>Expenditure</b>	<b>3,42,619</b>	<b>3,28,413</b>	<b>2,94,314</b>	<b>3,41,841</b>	<b>3,76,931</b>
<b>EBITDA</b>	<b>73,469</b>	<b>92,836</b>	<b>85,458</b>	<b>99,863</b>	<b>1,12,473</b>
Depreciation	24,507	27,022	27,959	28,814	29,856
<b>EBIT</b>	<b>48,962</b>	<b>65,814</b>	<b>57,499</b>	<b>71,049</b>	<b>82,617</b>
Other Income	4,634	6,478	8,719	9,242	9,797
Interest expenses	17,779	19,857	16,987	14,031	12,405
<b>PBT</b>	<b>35,818</b>	<b>52,435</b>	<b>49,231</b>	<b>66,260</b>	<b>80,009</b>
Tax	10,681	11,399	14,671	19,745	23,843
Extraordinary Items	1,139	(17,081)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>24,004</b>	<b>58,105</b>	<b>34,560</b>	<b>46,514</b>	<b>56,166</b>
<b>Adjusted PAT</b>	<b>25,137</b>	<b>41,036</b>	<b>34,560</b>	<b>46,514</b>	<b>56,166</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	2,874	2,962	2,962	2,962	2,962
Reserves & surplus	3,34,754	3,88,269	4,18,648	4,60,808	5,12,097
<b>Net worth</b>	<b>3,37,628</b>	<b>3,91,230</b>	<b>4,21,610</b>	<b>4,63,770</b>	<b>5,15,059</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>2,53,370</b>	<b>2,28,979</b>	<b>1,77,439</b>	<b>1,57,439</b>	<b>1,37,439</b>
Net deferred tax liability	63,994	49,060	49,060	49,060	49,060
<b>Total Liabilities</b>	<b>6,54,992</b>	<b>6,69,269</b>	<b>6,48,109</b>	<b>6,70,269</b>	<b>7,01,558</b>
<b>Net block</b>	<b>5,66,446</b>	<b>5,69,824</b>	<b>5,53,865</b>	<b>5,47,051</b>	<b>5,39,195</b>
<b>Investment</b>	<b>29,213</b>	<b>59,287</b>	<b>59,287</b>	<b>79,287</b>	<b>1,21,287</b>
<b>Current Assets</b>	<b>1,58,061</b>	<b>1,55,005</b>	<b>1,50,683</b>	<b>1,57,886</b>	<b>1,61,504</b>
Cash & bank balance	7,397	5,392	5,201	5,921	6,049
Other Current Assets	68,264	71,453	71,453	71,453	71,453
<b>Current liabilities &amp; Provision</b>	<b>1,10,262</b>	<b>1,24,042</b>	<b>1,28,052</b>	<b>1,26,282</b>	<b>1,32,755</b>
<b>Net current assets</b>	<b>47,799</b>	<b>30,963</b>	<b>22,631</b>	<b>31,604</b>	<b>28,749</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>6,54,992</b>	<b>6,69,269</b>	<b>6,48,109</b>	<b>6,70,269</b>	<b>7,01,558</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>34,685</b>	<b>52,423</b>	<b>40,512</b>	<b>57,018</b>	<b>70,212</b>
Other Non-Cash items	(3,356)	(5,869)	0	0	0
Chg in working cap	(6,957)	4,503	8,140	(8,253)	2,983
<b>Operating Cashflow</b>	<b>59,557</b>	<b>89,020</b>	<b>78,928</b>	<b>71,865</b>	<b>91,613</b>
Capital expenditure	(16,482)	(17,037)	(15,131)	(22,000)	(22,000)
<b>Free Cash Flow</b>	<b>43,075</b>	<b>71,983</b>	<b>63,797</b>	<b>49,865</b>	<b>69,613</b>
Investments	26,614	(26,266)	0	(20,000)	(42,000)
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>11,138</b>	<b>(42,094)</b>	<b>(6,412)</b>	<b>(32,758)</b>	<b>(54,203)</b>
Equity Capital Raised	52	27	0	0	0
Loans Taken / (Repaid)	(47,309)	(27,195)	(51,540)	(20,000)	(20,000)
Dividend paid (incl tax)	(3,462)	(3,800)	(4,180)	(4,354)	(4,877)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>(67,568)</b>	<b>(49,911)</b>	<b>(72,707)</b>	<b>(38,386)</b>	<b>(37,282)</b>
<b>Net chg in cash</b>	<b>3,127</b>	<b>(2,985)</b>	<b>(192)</b>	<b>721</b>	<b>128</b>
Opening cash position	772	8,339	5,392	5,201	5,921
<b>Closing cash position</b>	<b>7,392</b>	<b>5,392</b>	<b>5,201</b>	<b>5,921</b>	<b>6,049</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EBITDA Margin	17.7	22.0	22.5	22.6	23.0
EBIT Margin	11.8	15.6	15.1	16.1	16.9
Effective Tax Rate	30.9	21.7	29.8	29.8	29.8
Net Margin	5.9	9.7	9.1	10.5	11.5
ROCE	9.4	10.9	10.1	12.2	13.5
ROE	8.2	11.3	8.5	10.5	11.5
RoIC	9.5	10.9	9.9	12.4	14.6

<b>Per Share Data (Rs)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EPS	91.5	142.2	119.7	161.2	194.6
CEPS	180.8	235.8	216.6	261.0	298.0
BVPS	1,229.3	1,355.5	1,460.7	1,606.8	1,784.5
DPS	10.5	10.9	12.5	12.0	12.5

<b>Valuations (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
PER	45.2	29.1	34.5	25.7	21.3
P/CEPS	22.9	17.5	19.1	15.9	13.9
P/BV	3.4	3.1	2.8	2.6	2.3
EV / Sales	3.3	3.3	3.5	2.9	2.5
EV / EBITDA	18.6	14.8	15.5	12.8	10.9
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

<b>Gearing Ratio (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Net Debt/ Equity	0.7	0.5	0.3	0.2	0.1
Net Debt/EBIDTA	3.1	2.0	1.5	0.9	0.2
Working Cap Cycle (days)	35.4	22.2	16.8	21.2	16.9

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Revenue	34.3	1.2	(9.8)	16.3	10.8
EBITDA	19.6	26.4	(7.9)	16.9	12.6
EBIT	13.9	34.4	(12.6)	23.6	16.3
PAT	(71.4)	435.1	(15.8)	0.0	0.0

<b>Quarterly (Rs mn)</b>	<b>Q1FY20</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>
Revenue	1,14,197	96,205	1,03,538	1,07,447	76,338
EBITDA	29,493	19,181	19,730	24,053	20,746
<b>EBITDA Margin (%)</b>	<b>25.8</b>	<b>19.9</b>	<b>19.1</b>	<b>22.4</b>	<b>27.2</b>
PAT	12,809	5,788	5,779	32,408	7,965
<b>EPS (Rs)</b>	<b>46.6</b>	<b>21.1</b>	<b>21.0</b>	<b>118.0</b>	<b>29.0</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-19</b>	<b>Oct-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>
Promoters	61.7	61.1	60.2	59.7	60.0
FII	17.9	17.5	17.6	16.5	16.1
DII	11.9	12.1	13.0	14.2	14.6
Public and Others	8.5	9.2	9.2	9.7	9.3

Source: Capitaline

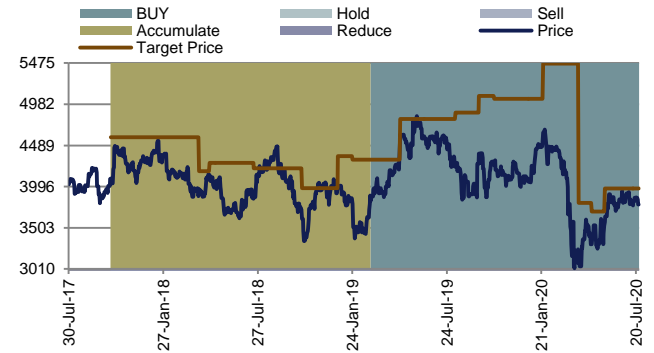


## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
21-May-20	3,572	3,974	12m	Buy	Sanjeev Kumar Singh
18-May-20	3,308	3,697	12m	Buy	Sanjeev Kumar Singh
26-Apr-20	3,308	3,697	12m	Buy	Sanjeev Kumar Singh
01-Apr-20	3,141	3,801	12m	Buy	Sanjeev Kumar Singh
24-Jan-20	4,643	5,468	12m	Buy	Sanjeev Kumar Singh
20-Nov-19	4,114	5,048	12m	Buy	Sanjeev Kumar Singh
22-Oct-19	4,249	5,048	12m	Buy	Sanjeev Kumar Singh
23-Sep-19	4,391	5,083	12m	Buy	Sanjeev Kumar Singh
26-Aug-19	4,038	4,881	12m	Buy	Sanjeev Kumar Singh
09-Aug-19	4,281	4,881	12m	Buy	Sanjeev Kumar Singh
24-Jun-19	4,575	4,805	12m	Buy	Sanjeev Kumar Singh
13-Jun-19	4,570	4,805	12m	Buy	Sanjeev Kumar Singh
25-Apr-19	4,619	4,805	12m	Buy	Sanjeev Kumar Singh
14-Mar-19	3,964	4,319	12m	Buy	Sanjeev Kumar Singh
28-Feb-19	3,827	4,319	12m	Buy	Sanjeev Kumar Singh
24-Jan-19	3,791	4,319	12m	Accumulate	Sanjeev Kumar Singh
07-Jan-19	3,927	4,359	12m	Accumulate	Sanjeev Kumar Singh
27-Dec-18	3,983	4,359	12m	Accumulate	Sanjeev Kumar Singh
19-Oct-18	3,610	3,977	12m	Accumulate	Sanjeev Kumar Singh
19-Jul-18	3,857	4,214	12m	Accumulate	Sanjeev Kumar Singh
21-May-18	3,852	4,279	12m	Accumulate	Sanjeev Kumar Singh
25-Apr-18	4,135	4,279	12m	Accumulate	Sanjeev Kumar Singh
05-Apr-18	3,967	4,179	12m	Accumulate	Sanjeev Kumar Singh
15-Dec-17	4,312	4,585	12m	Accumulate	Sanjeev Kumar Singh
18-Oct-17	4,092	4,585	12m	Accumulate	Sanjeev Kumar Singh

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Cement & Building Materials



### Analyst: Sanjeev Kumar Singh

#### Contact Details

sanjeev.singh@emkayglobal.com  
+91 22 6612 1255

#### Sector

Cement & Building materials

#### Analyst bio

Sanjeev Kumar Singh holds an MBA and has over 10 years of experience in the Cement sector. His team currently covers 17 stocks in the Cement and Building Materials space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Cement &amp; Building Materials</b>	<b>2.03</b>	<b>2.03</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
ACC	0.19	0.21	10%	2	10.51
Ambuja Cements	0.26	0.29	14%	4	14.44
Grasim Industries	0.38	0.16	-59%	-22	7.66
Birla Corporation	0.00	0.08	NA	8	3.81
India Cements	0.00	0.00	NA	0	0.00
JK Cement	0.00	0.00	NA	0	0.00
Jk Lakshmi Cement	0.00	0.12	NA	12	5.99
Orient Cement	0.00	0.00	NA	0	0.00
Prism Johnson	0.00	0.00	NA	0	0.00
Ramco Cements	0.15	0.10	-29%	-4	5.17
Sanghi Industries*	0.00	0.00	NA	0	0.00
Shree Cements	0.32	0.22	-32%	-10	10.74
Star Cement	0.00	0.00	NA	0	0.00
Ultratech Cement	0.73	0.84	15%	11	41.66
Century Plyboards	0.00	0.00	NA	0	0.00
Kajaria Ceramics	0.00	0.00	NA	0	0.00
Somany Ceramics	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

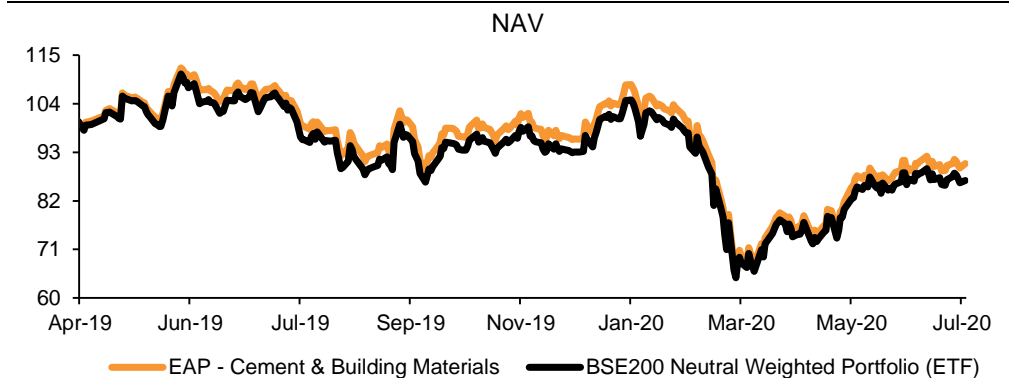
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	25-Oct-19	27-Jan-20	27-Apr-20	26-Jun-20	27-Jul-20
EAP - Cement & Building Materials	100.0	96.6	108.4	76.1	89.5	90.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	93.7	104.9	74.5	87.0	86.6

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 29 Jul 2020 03:40:15 (SGT)

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: [www.emkayglobal.com](http://www.emkayglobal.com)