

UltraTech Cement



UltraTech Cement Ltd.

COVID-19 related disruption affects operations leading to volume decline

CMP INR 4,181	Target INR 4,496	Potential Upside 7.5%	Market Cap (INR Cr) INR 120,666	Recommendation ACCUMULATE	Sector Cement
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Result Highlights of Q1FY21

- UltraTech Cement’s revenue declined by 33.1% YoY in Q1FY21 to INR 7,634 Cr (down 29.0% QoQ).
- EBITDA for the quarter declined 29.7% YoY (down 15.1% QoQ) to INR 2,075 Cr. EBITDA margin expanded by 131bps YoY (+444bps QoQ) to 27.2% in Q1FY21 from 25.9% in corresponding quarter last year.
- Reported Net Profit de-grew by 37.8% YoY (down 75.4% QoQ) to INR 797 Cr.
- Exceptional item represents an amount of INR 157.37 Cr, booked as a one-time expense during the three months ended 30/06/2020, upon receiving an order dated 17/07/2020, issued by the Hon’ble Supreme Court against the Company’s claim of capital investment subsidy, under Rajasthan Investment Promotion Scheme -2003.

MARKET DATA

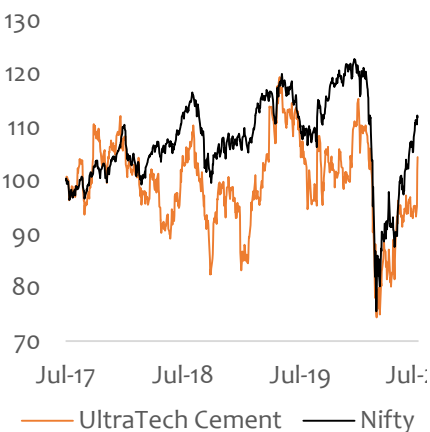
Shares outs (Cr)	29
Equity Cap (INR Cr)	39,123
Mkt Cap (INR Cr)	120,666
52 Wk H/L (INR)	4,904/2,910
Volume Avg (3m K)	691
Face Value (INR)	10
Bloomberg Code	UTCEM IN

KEY FINANCIALS

INR Crores	FY18	FY19	FY20	FY21E	FY22E
Revenue	31,872	41,609	42,125	37,922	42,064
EBITDA	6,145	7,347	9,284	9,367	9,927
PAT	2,222	2,404	5,815	4,133	4,558
Adj PAT	2,569	2,518	3,703	4,133	4,558
EPS (INR)	80.92	84.00	201.55	143.20	157.93
Adj. EPS (INR)	93.54	91.67	128.30	143.20	157.93
EBITDA Margin (%)	19.3%	17.7%	22.0%	24.7%	23.6%
NPM (%)	7.0%	5.8%	13.8%	10.9%	10.8%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Lower than expected volume decline; realizations improve QoQ: UltraTech’s consolidated cement sales volume declined 31.6% YoY (-31.7% QoQ) to 14.7MT. Disruption in operations was on account of suspension of operations across the company’s facilities from 23/03/2020, in the wake of the COVID-19 pandemic. Operations resumed in a phased manner from 20/04/2020 and capacity utilization during the quarter was in the range of 60-65%. Company is witnessing demand largely in the retail & rural market, resulting in retail mix reaching an all-time high of 78% in Q1. Realization was muted YoY, but it increased 4.0% QoQ to INR 5,211/t.

Cost control improves EBITDA margin despite lower volume offtake & lower GPM: Despite lower Gross Profit Margin & low volume offtake, company was able to improve its EBITDA margin due to prudent cost control. For the quarter, company’s EBITDA/t improved 24.3% QoQ (+2.8% YoY) to INR 1,416/t (vs INR 1,139/1,377 per tonne in Q4FY20/Q1FY20). Lower energy cost (18% of revenue in Q1FY21 vs 20% in Q1FY20), lower logistic cost (21.0% in Q1FY21 vs 22.1% in Q1FY20) & lower other expenses (10.9% of revenue in Q1FY21 vs 12.1% in Q1FY20) helped EBITDA margin improvement. The reduction in other expenses was due to lack of annual maintenance cost, lower packaging cost & cost reduction initiatives taken up by the company. Despite lower finance cost at INR 373 Cr in Q1FY21 vs INR 503 Cr in Q1FY20 & higher other income at INR 279 Cr in Q1FY21 vs INR 134 Cr in Q1FY20, reported Net Profit declined 37.8% YoY (down 75.4% QoQ) to INR 797 Cr. Net Profit margin for the quarter thus declined to 10.4% in Q1FY21 vs 11.2% in Q1FY20 & 30.2% in Q4FY20.

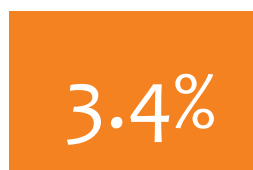
Working Capital release helps in lowering the leverage; management raises Capex guidance: Company’s Net Debt fell 13% QoQ (31% YoY) with net debt/EBITDA now below 1.4x; supported by working capital release of INR 7.9 bn. Company doesn’t see further release in its working capital going forward. With substantial deleveraging in last 9 months, company has raised its capex guidance for FY21 to INR 15 bn vs. INR 10 bn earlier, of which maintenance capex to be around INR 7-8 bn.

MARKET INFO

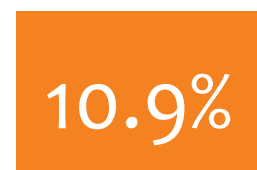
SENSEX	38,071
NIFTY	11,203

SHARE HOLDING PATTERN (%)

Particulars	Jun-20 (%)	Mar-20 (%)	Dec-19 (%)
Promoters	64.0	59.7	59.2
FIIIs	16.1	16.5	17.6
DIIIs	10.7	14.2	14.0
Others	9.2	9.6	9.2
Total	100	100	100



EBITDA CAGR between FY20 and FY22E



Adj PAT CAGR between FY20 and FY22E

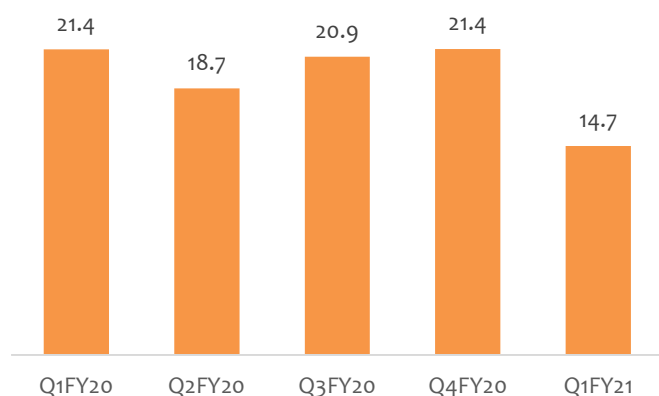
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Key Concall Highlights: (i) Improvement in demand primarily because of individual home builders across the regions excluding Andhra Pradesh, Telangana, Karnataka and Maharashtra (ii) Capacity utilization in the range of 60-65% (iii) Cement prices fell ~4-5% in July-20 from June-20 end (iv) Fixed overheads reduced during the quarter. Fixed overheads to reduce 10% in FY21E (v) Capex guidance increased by 50% to INR 15bn to accelerate the investment on ongoing grinding capacity expansion and waste heat recovery plants (vi) Expansion of WHR capacity by 66MW would increase its share in power consumption by 600bps to 20% by FY22E (vii) Company to commission 3.5 Mn T greenfield facility at Pali, Rajasthan in the third quarter of FY23 (viii) As part of divestment of non-core assets, expects to complete sale of 92.5% stake in Chinese subsidiary of Ultratech Nathdwara (UNCL) by Aug-20 for net proceeds of ~INR 7 bn (ix) Overseas operations of UNCL has debt of INR 14 bn with interest cost of 1.5%.

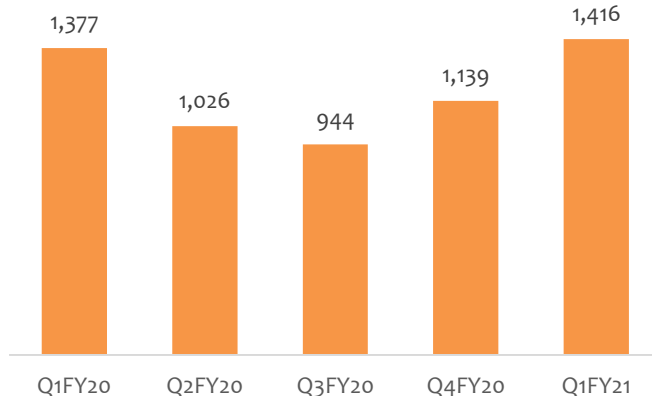
Valuation and view

UltraTech’s Q1FY21 performance was better than expected with strong beat of 25.8%/61.4% in EBITDA/PAT. With optimistic demand scenario as well as reduction in company’s debt position, company has increased its Capex guidance for FY21 to INR 15 bn vs. INR 10 bn earlier, which augurs well for the company. Moreover, company’s expansion in Eastern region (Grinding units) will help debottleneck capacities and further help to gain market share in the region. With government’s recently announced fiscal stimulus/Infra push (5%-6% expected incremental demand), we believe UltraTech will be the key beneficiary (having the highest installed capacity in the country) to quickly ramp up its operations to cater the incremental demand. Based on recent quarter numbers & keeping in mind the cement volume/price environment, in addition to energy/logistic trends, we have revised our FY21E Revenue/PAT downward by 12.4%/0.9% & FY22E by 7.5%/1.7%, respectively. After rallying 20.5% since our last update on the stock (at INR 3,572/share), the shares of UltraTech are now currently trading at EV/EBITDA of 15.5x/14.6x on FY21E/FY22E EBITDA. With prudent cost management shown by the company in distressing times, along with deleveraging, **we now value UltraTech Cement at 15x EV/EBITDA (previously 14x) on FY22E EBITDA (earlier FY21E) and arrive at a revised Target Price of INR 4,496/share (previously INR 3,966); an upside potential of 7.5% over CMP. Accordingly, we reiterate our ‘ACCUMULATE’ rating on the shares of Ultratech Cement**

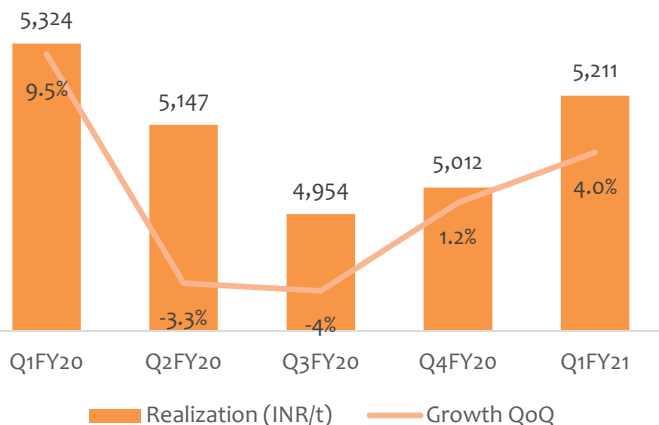
COVID-19 led Volume decline (Mn T)



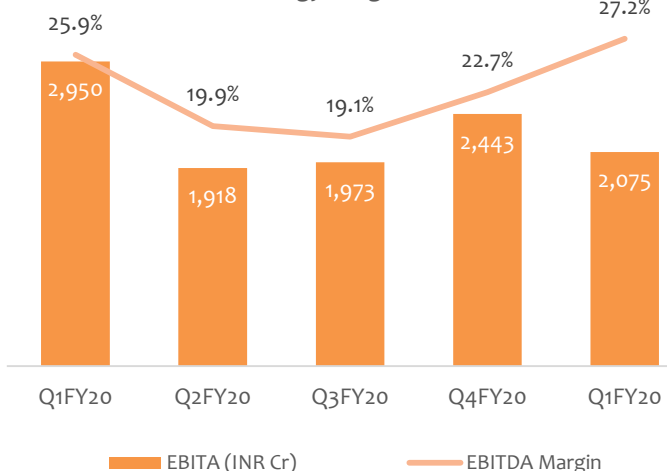
Cost control improves EBITDA/t (INR)



Realization improves QoQ



EBITDA Margin improvement YoY due to lower energy & logistics costs



Source: Company, KRChoksey Research

UltraTech Cement Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Crores	FY18	FY19	FY20	FY21E	FY22E
Revenues	31,872	41,609	42,125	37,922	42,064
COGS	5,289	6,983	6,313	6,181	6,478
Gross profit	26,584	34,626	35,812	31,740	35,586
Employee cost	1,810	2,291	2,509	2,275	2,524
Power & Fuel	6,334	9,436	8,468	6,826	8,413
Freight and Forwarding Expense	7,310	10,315	9,725	8,532	9,675
Other expenses	4,984	5,237	5,825	4,740	5,048
EBITDA	6,145	7,347	9,284	9,367	9,927
EBITDA Margin	19.3%	17.7%	22.0%	24.7%	23.6%
Depreciation & amortization	1,848	2,451	2,702	2,433	2,440
EBIT	4,297	4,896	6,581	6,934	7,487
Interest expense	1,238	1,778	1,986	1,875	1,838
PBT	3,301	3,469	5,242	5,736	6,326
Tax	1,077	1,068	-568	1,606	1,771
Minority interest	2	-3	-4	-3	-3
PAT	2,222	2,404	5,815	4,133	4,558
Adj. PAT	2,569	2,518	3,703	4,133	4,558
EPS (INR)	80.92	87.52	201.48	143.20	157.93
Adj. EPS	93.54	91.67	128.30	143.20	157.93

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Crores	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	3,888	5,956	8,902	4,717	6,765
Net Cash Flow from/(used in) Investing Activities	1,862	1,114	(4,209)	(2,261)	(1,849)
Net Cash Flow from Financing Activities	(5,735)	(6,757)	(4,991)	(1,853)	(4,588)
Net Inc/Dec in cash equivalents	14	313	(298)	602	328
Opening Balance	59	77	441	147	749
Closing Balance Cash and Cash Equivalents	77	441	147	749	1,077

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	19.3%	17.7%	22.0%	24.7%	23.6%
Tax rate (%)	32.6%	30.8%	-10.8%	28.0%	28.0%
Net Profit Margin (%)	7.0%	5.8%	13.8%	10.9%	10.8%
RoE (%)	8.4%	7.1%	14.9%	9.6%	9.6%
RoCE (%)	9.5%	8.4%	10.9%	10.7%	11.3%
EPS (INR)	80.92	87.52	201.48	143.20	157.93

Source: Company, KRChoksey Research

UltraTech Cement Ltd.

Exhibit 4: Balance Sheet

INR Cr	FY18	FY19	FY20	FY21E	FY22E
Non-current assets					
Property, plant and equipment	35,638	44,643	43,841	42,945	42,524
Capital work-in-progress	1,510	1,149	910	910	910
Goodwill	1,036	6,223	6,252	6,252	6,252
Intangible assets	3,042	5,783	5,627	5,627	5,627
Investment in Associate	11	19	23	23	23
Financial assets					
Investments	1,487	1,386	1,662	1,662	1,662
Loans	127	1,156	1,232	1,293	1,293
Other financial assets	20	274	400	400	400
Income Tax Assets (Net)	140	128	280	294	294
Deferred Tax Assets (Net)	9	12	6	5	6
Other non-current assets	2,668	2,810	2,826	3,034	3,365
Total non-current assets	45,689	63,583	64,330	63,716	63,628
Current assets					
Inventories	3,268	4,099	4,148	4,403	4,614
Financial assets					
Investments	3,949	1,516	4,244	4,456	4,456
Trade receivables	2,221	2,787	2,238	3,117	3,227
Cash and cash equivalents	77	441	147	749	1,077
Other Balances with Banks	142	298	393	432	432
Loans	111	198	198	218	218
Other financial assets	581	1,046	1,061	1,167	1,167
Current Tax Assets (Net)	33	38	0	0	0
Assets/Disposal Group held for sale	43	1,094	1,076	1,183	1,183
Other current assets	1,036	1,437	1,503	1,896	3,365
Total current assets	11,461	12,954	15,007	17,621	19,739
TOTAL ASSETS	57,151	76,537	79,337	81,337	83,366
EQUITY AND LIABILITIES					
Equity					
Equity share capital	275	275	289	289	289
Other equity	26,107	28,088	38,827	42,689	46,949
Equity attributable to the equity shareholders	26,381	33,750	39,115	42,978	47,237
Non-controlling interests	16	13	8	4	1
Total equity	26,397	33,763	39,123	42,982	47,239
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Borrowings	15,863	20,650	17,368	17,980	15,532
Other financial liabilities	28	0	1,056	1,056	1,056
Provisions	157	173	242	242	242
Deferred Tax Liabilities (Net)	3,183	6,411	4,912	4,171	3,996
Other Non-Current Liabilities	7	6	6	6	6
Total non-current liabilities	19,238	27,241	23,583	23,455	20,832
Current liabilities					
Financial liabilities					
Borrowings	2,763	3,668	3,985	3,668	3,668
Trade payables	2,385	3,160	3,501	2,202	2,485
Other financial liabilities	2,678	3,315	3,994	3,994	3,994
Other current liabilities	2,749	3,867	3,512	3,512	3,512
Provisions	496	594	548	493	547
Current Tax liabilities (Net)	444	441	601	541	600
Liabilities included in Disposal Group held for sale	0	489	489	489	489
Total current liabilities	11,515	15,533	16,631	14,899	15,296
Total liabilities	30,753	42,775	40,214	38,355	36,128
TOTAL EQUITY AND LIABILITIES	57,151	76,537	79,337	81,337	83,366

Source: Company, KRChoksey Research

UltraTech Cement Ltd.

UltraTech Cement Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
29-Jun-20	4,181	4,496	ACCUMULATE	Buy	More than 15%
22-May-20	3,572	3,966	ACCUMULATE	Accumulate	5% – 15%
28-Jan-20	4,686	5,162	ACCUMULATE	Hold	0 – 5%
24-Oct-19	4,251	5,020	BUY	Reduce	-5% – 0
				Sell	Less than – 5%

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