

**Well positioned to steer through crisis,
market leadership and size to benefit**

CMP: Rs 4,162

Rating: ACCUMULATE

Target Price: Rs 4,660

Stock Info

BSE	532528
NSE	ULTRACEMCO
Bloomberg	UTCEM IN
Reuters	ULTC.BO
Sector	Cement
Face Value (Rs)	10
Equity Capital (Rs Cr)	275
Mkt Cap (Rs Cr)	1,03,082
52w H/L (Rs)	4,905 / 2,910
Avg. Yearly Vol (in 000')	563

Shareholding Pattern %

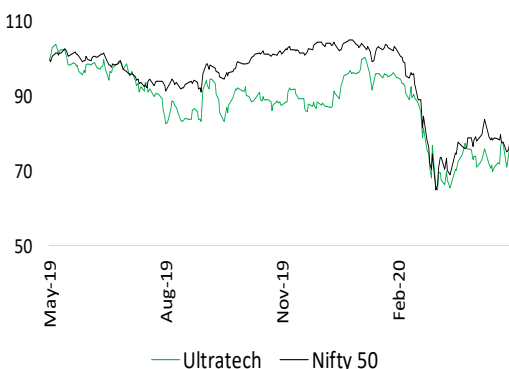
(As on June, 2020)

Promoters	60.0
FII	16.1
DII	14.7
Public & Others	9.1

Stock Performance (%)

	3m	6m	12m
Ultratech	22.9	-38.3	-37.1
Nifty	18.2	-12.1	-6.8

Ultratech Vs Nifty



Ultratech witnessed slowdown in Q1FY20 with the advent of Corona virus and nation-wide lockdown. Consolidated revenue stood at Rs 7,634 Cr, a decline of 33.2% YoY/29.0% QoQ, EBITDA stood at Rs 2,075 Cr, shrinking by 29.7% YoY/15.1% QoQ and PAT at Rs 797.4 Cr decreasing by 37.8% YoY/75.4% QoQ. The sharp decline in revenue could be attributed to the Covid-19 induced lockdown which saw sales volume decline by 22% (17.86 million tonne in Q1FY20 to 13.94 million tonne). The net debt fell down to Rs 14,651 Cr in Q1FY21 from Rs 16,680 Cr in Q1FY20. The cement major is on the right track to integrate the acquired assets over last financial year into its internal brand and units.

Q1FY21 Operational Highlights

The fall in realizations were mitigated by fall in expense per tonne: The company's realizations came down during the quarter, which was mitigated by significant fall in expenses for the company, e.g. raw materials (declined 2% YoY), logistics cost (declined 5% YoY) and fuel cost (declined by 11% YoY).

Better integration of acquired assets: The company management informed of the timely integration of the business operations of acquired assets over last financial year. The management expects to complete +80% of brand integration of Century assets by Q3FY21. The Dalla Super clinker plant is expected to be completed by March FY21 while SGUs in eastern region & UP under development are expected to be delayed by over 6 months due to Covid-19.

Operation-wise, the company is working to put in place a cost-effective plan: Due to the fallen demand owing to the pandemic and the strong monsoon, the management is working on a plan to put a cost-efficiency plan in action soon when the demand revives by H2FY21.

Valuation & View

Going ahead, the company has healthy cash reserves, capital reserves, a lower than earlier debt level and good amount of inventory. Also, since the clout around the spread or containment of Coronavirus remains under doubts, the cement maker may not be seeing an upward growth anywhere before the Oct-Dec quarter. We continue to maintain our positive view on Ultratech owing to its market dominance, economies of scale and efficient management. At CMP of Rs 4,162 the stock is available at FY22E EV/EBITDA of 16.0x. After factoring in the size of the company, its highly experienced management, current scenario under the corona crisis, we extend our confidence on the profitability of the firm. Hence, we upgrade upwards our exit EV/EBITDA multiple 17.0x of its FY22E estimates, which yields a revised target price of Rs 4,660 and maintain ACCUMULATE rating.

Concall Highlights:

- (i) The cement industry saw revival in demand in the northern states, east and central states, while it faced slowdown in demand in western states, Andhra, Karnataka and Telangana state.
- (ii) The industry has not seen any additional capacity expansion during the quarter.
- (iii) The management attributes the demand driven by individual persons and migrated labours from cities to eastern states.
- (iv) The company's retail share has increased to an all time high of 78% in Q1FY21.
- (v) Average cement prices to increase by 7% QoQ during the quarter.
- (vi) It has reduced its net debt by Rs 2,200 Cr to Rs 12,950 Cr and is expecting to receive funds from assets held to be sold in Q2FY21 for its Chinese units.
- (vii) Average capacity utilization for the quarter stood at 46% for the quarter Q1FY21. For the month of May and June, the capacity utilization stood at >70%.
- (viii) Brown-field expansion in Pataliputra, Bihar (0.6 MT) and Dhankoni, WB (0.6 MT) are going on and will operational by early FY22.
- (ix) The 2.3 MT clinker plant in UP will be operational by next fiscal year.
- (x) Capex for FY21- Rs 1,500 Cr.
- (xi) The company expects the business volume to get steady and upward of pre-covid levels only after the festival season in Q3FY21.

Q1 FY21 - Quarterly Performance (Consolidated)

(in Rs Mn)

UltraTech Cement Ltd.

Rs Mn (consolidated)	Q1FY21	Q4FY20	Q1FY20	Q-o-Q	Y-o-Y
Net Revenue	76,338	107,447	114,197	-29.0%	-33.2%
Material Cost	41,639	62,507	65,064	-33.4%	-36.0%
Employee cost	5,604	6,550	5,961	-14.4%	-6.0%
Other Expenses	8,348	13,964	13,680	-40.2%	-39.0%
EBITDA	20,746	24,427	29,493	-15.1%	-29.7%
<i>EBITDA margin %</i>	<i>27.2%</i>	<i>22.7%</i>	<i>25.8%</i>	<i>444bps</i>	<i>135bps</i>
Other Income	2,788	1,979	1,347	40.9%	107.0%
Depreciation	6,462	6,724	6,884	-3.9%	-6.1%
EBIT	17,072	19,682	23,956	-13.3%	-28.7%
Finance cost	3,930	5,048	5,028	-22.1%	-21.8%
Exceptional Item	-1,574	-	-	-	-
PBT	11,568	14,634	18,928	-20.9%	-38.9%
Tax Expense	3,603	-17,774	6,118	-120.3%	-41.1%
Effective tax rate %	31.1%	-121.5%	32.3%	15260bps	-118bps
PAT	7,965	32,408	12,810	-75.4%	-37.8%
MI & Associates	9	19	1		
Consolidated PAT	7,974	32,428	12,811.40	-75.4%	-37.8%
<i>PAT margin %</i>	<i>10.4%</i>	<i>30.2%</i>	<i>11.2%</i>	<i>-1973bps</i>	<i>-77bps</i>
EPS (Rs)	27.6	112.4	44.4	-75.4%	-37.7%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Valuations (Rs Mn)	FY22E
EV/EBITDA (x)	17.0
EBITDA	89723
EV	1525291
Debt	252695
Cash	7326
Market Cap	1279923
No shares	275
CMP (Rs)	4162
Target (Rs)	4,660
Upside (%)	12.0%

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
Revenues	373,792	421,248	418,826	472,226
Change (%)	19.0%	12.7%	-0.6%	12.8%
Total Expenses	305,911	328,413	339,249	382,503
EBITDA	67,881	92,836	79,577	89,723
Other Income	4,381	6,478	6,282	7,083
Depreciation	21,398	27,022	23,035	25,972
Interest	15,486	19,857	14,659	16,528
PBT	35,378	52,435	48,165	54,306
Extra-ordinary	0	0	0	0
PBT after ext-ord.	35,378	52,435	48,165	54,306
Tax	11,068	-5,682	12,123	16,292
Rate (%)	31.3%	-10.8%	25.2%	30.0%
PAT	24,310	58,117	36,042	38,014
MI & Associates	-12	32	23	33
Consolidated PAT	24,322	58,085	36,019	37,981
Change (%)	9.5%	138.8%	-38.0%	5.4%

Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
PBT	34,685	52,423	48,165	54,306
Depreciation	24,507	27,022	23,035	25,972
Interest & others	(1,188)	(1,422)	8,399	9,477
Cash flow before WC changes	73,615	93,432	88,760	90,536
(Inc)/dec in working capital	(6,957)	4,503	(33)	732
Operating CF after WC changes	66,658	97,935	88,727	90,487
Less: Taxes	7,101	8,914	12,123	(16,292)
Operating Cash Flow	59,557	89,020	76,604	74,196
(Inc)/dec in F.A + CWIP	11,138	(42,094)	(40,000)	(39,999)
(Pur)/sale of investment	0	0	0	0
Cash Flow from Investing	11,138	(42,094)	(40,000)	(39,999)
Free Cash Flow (FCF)	70,695	46,927	36,604	34,197
Loan raised/(repaid)	56,919	(19,103)	(20,058)	(21,061)
Equity raised	0	0	0	0
Interest & others	(16,850)	(18,944)	(19,891)	(20,886)
Dividend	(3,462)	(3,800)	(5,403)	(5,697)
Cash Flow from Financing Activities	(67,568)	(49,911)	(32,907)	(32,033)
Net inc /(dec) in cash	3,127	(2,985)	3,697	2,163
Opening balance of cash	1,286	4,450	1,465	5,163
Closing balance of cash	4,412	1,465	5,163	7,326

Balance Sheet

Y/E March (Rs Mn)	FY19	FY20	FY21E	FY22E
Sources of Funds				
Share Capital	2,746	2,886	2,746	2,746
Reserves & Surplus	334,760	388,269	401,778	418,412
Net Worth	337,507	391,155	404,525	421,158
Loan Funds	243,188	224,085	242,715	252,695
MI, Deferred Tax & other Liabilities	69,189	54,148	56,855	59,698
Capital Employed	649,884	669,387	704,095	733,551
Application of Funds				
Net Block	446,433	438,415	460,335	469,542
CWIP	11,533	9,196	11,533	11,533
Other Non-current Assets	150,858	163,662	173,482	183,891
Deferred Tax Assets	1,771	2,859	121	121
Net Fixed Assets	610,596	614,132	645,471	665,087
Investments	29,213	59,287	38,730	38,730
Debtors	27,870	22,383	28,687	33,638
Inventories	40,990	41,483	43,557	45,735
Cash & Bank Balance	7,397	5,392	5,163	7,326
Loans & Advances & other CA	38,374	39,937	51,884	56,835
Total Current Assets	125,565	119,953	140,048	143,534
Current Liabilities	107,820	116,086	110,282	101,459
Provisions	7,671	7,898	9,873	12,341
Net Current Assets	10,075	(4,031)	19,894	29,735
Total Assets	649,884	669,387	704,095	733,551

Key Ratios

Y/E March	FY19	FY20	FY21E	FY22E
Per share (Rs)				
EPS	88.7	211.5	131.1	138.3
CEPS	166.6	309.9	215.0	232.9
BVPS	1033.7	1129.9	1472.9	1533.5
DPS	11.5	29.6	19.7	20.7
Div. Payout (%)	13.0%	14.0%	15.0%	15.0%
Valuation (x)				
P/E	46.6	19.5	31.5	29.9
P/CEPS	24.8	13.3	19.2	17.7
P/BV	4.0	3.7	2.8	2.7
EV/EBITDA	22.0	15.8	17.7	16.0
Dividend Yield (%)	0.3%	0.7%	0.5%	0.5%
Return Ratio (%)				
EBITDA Margin	18.2%	22.0%	19.0%	19.0%
PAT Margin	6.5%	13.8%	8.6%	8.0%
ROE	8.6%	18.7%	8.9%	9.0%
ROCE	8.5%	11.3%	8.2%	8.9%
Leverage Ratio (x)				
Total D/E	0.8	0.8	0.6	0.6
Net D/E	0.8	0.6	0.3	0.4
Turnover Ratios				
Asset Turnover (x)	0.6	0.6	0.5	0.6
Receivable Days	25	25	25	26
Payable days	96	95	90	91

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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