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Company update

Cement

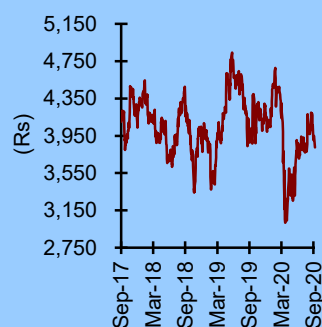
Target price: Rs5,100

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	60.2	60.0	60.0
Institutional investors	30.6	30.6	30.7
MFs and others	9.2	10.5	10.6
FIs/Insurance	3.8	3.6	4.0
FPI	17.6	16.5	16.1
Others	9.2	9.4	9.3

Source: NSE

Price chart



INDIA

UltraTech Cement

BUY

Maintained

Rs3,825

Reaping benefits of scale, diversified market mix

UTCEM is likely to be the key beneficiary of expected demand recovery post monsoon, given its low utilisation vs larger peers especially in North / Central regions and expected demand improvement in South / West regions from H2FY21E. Acquired assets of Binani and Century may see gradual ramp-up after operating at 60-65% utilisation in FY20. UTCEM's strong profitability would further increase with 10% fixed costs reduction (Rs5bn p.a or Rs60/te.), improving profitability of Century's assets, better cost efficiencies and operating leverage. With better profitability and minimal organic capex plan, UTCEM is likely to turn debt free by FY23E. We maintain our FY21E-FY22E EBITDA (~15% ahead of consensus) with unchanged target price at Rs5,100/share (13x Mar'22E EV/E). Valuation at 10x FY22E EV/E is attractive, in our view. Maintain BUY.

- **Volumes to grow ahead of industry average:** UTCEM likely operated at 70%/75% utilisation in Central / North regions in FY20 vs these regions operating at 75-80% utilisation. Pent-up urban demand and non-trade demand especially in South and West regions could improve from H2FY21E after being severely impacted during H1FY21 with gradual relaxation in lockdown and return of migrant workers. Accordingly, UTCEM is likely to be key beneficiary of expected demand recovery and pick-up of non-trade volumes. Similarly, acquired assets of Binani and Century may see gradual ramp-up after operating at 60-65% utilisation in FY20. We expect UTCEM to post better than industry average volume growth over FY21-22E resulting in further increase in market share.
- **Century (CENT) assets EBITDA/te may more than double to ~Rs1,000/te** by FY22E from Rs423/te in FY20. It operated at >70% utilisation in May-Jun'20 with EBITDA/te improving to >Rs900/te with cost/te declining by Rs105/te in Q1FY21 and better realisation. Management maintained its guidance that ~84% of the production would be transitioned to UTCEM brand (vs 65% in Mar'20) and costs would be in line with existing UTCEM assets (excluding Rs70/te royalty cost) by Q3FY21.
- **Sharp focus on cost reductions and efficiencies:** UTCEM is targeting 10% fixed cost savings (Rs5bn p.a. or Rs60/te) in FY21 by cutting discretionary costs. Company commissioned 33MW WHRS during FY20 and plans to add another 27MW in FY21, taking total WHRS capacity to 145MW – sufficient for 13% of capacities. Besides, it plans to increase solar and wind power capacity from 99MW to >350MW by end of FY22 which can cater to ~7% of capacities. We expect consolidated EBITDA/te to increase from Rs1,144/te in FY20 to Rs1,273/te by FY22E.
- **UTCEM could become debt free by FY23E** as it is likely to generate FCF of Rs50-55bn p.a.: Consolidated net debt declined by Rs22bn QoQ to Rs147bn as at Jun'20-end owing to strong FCF aided by Rs8bn working capital release. Net debt has declined by Rs60bn over past three quarters. Besides, UTCEM has divested non-core Binani's assets in China in Aug'20 with net receipts of Rs7bn.

Market Cap	Rs1,104bn/US\$15bn
Reuters/Bloomberg	ULTC.BO/UTCEM IN
Shares Outstanding (mn)	288.6
52-week Range (Rs)	4753/2,913
Free Float (%)	40.0
FII (%)	16.1
Daily Volume (US\$'000)	33,549
Absolute Return 3m (%)	1.2
Absolute Return 12m (%)	(2.1)
Sensex Return 3m (%)	20.7
Sensex Return 12m (%)	2.8

Year to March	FY19	FY20	FY21E	FY22E
Revenue (Rsmn)	3,73,792	4,21,248	4,01,631	4,74,679
EBITDA (Rs mn)	67,881	94,166	96,194	1,17,304
Net Income (Rs mn)	24,347	38,384	44,091	60,159
% Chg YoY	(1.2)	50.0	14.9	36.4
P/E (x)	45.1	28.8	25.0	18.4
CEPS (Rs)	166.6	226.6	245.0	305.6
EV/E (x)	19.1	13.5	12.6	9.9
Dividend Yield	0.3	0.3	0.3	0.5
RoCE (%)	6.8	8.6	9.3	11.7
RoE (%)	8.9	11.4	10.7	13.1

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Table 1: Per tonne estimate – consolidated

(Rs/te)	FY18	FY19	FY20	FY21E	FY22E
Net realisation	4,795	4,815	5,038	5,025	5,090
Raw material consumed	813	855	767	766	769
Staff costs	280	270	305	287	259
Power & fuel	981	1,103	1,029	1,007	1,037
Freight	1,132	1,158	1,181	1,161	1,165
Others	706	619	691	647	646
Total operating expenses	3,911	4,005	3,973	3,867	3,877
Other operating income	68	79	79	59	59
EBITDA/te	951	889	1,144	1,218	1,273

Source: Company data, I-Sec research

Table 2: Key assumptions

	FY19	FY20	FY21E	FY22E
Volumes (mn te)				
Existing	70.1	64.3	61.6	71.9
CENT*	-	9.4	9.1	10.7
White Cement	1.4	1.3	1.2	1.3
UNCL^	1.2	3.7	3.6	4.3
UTCEM – India	72.7	78.8	75.5	88.3
ETA Star & other subsidiaries	3.7	3.6	3.5	3.9
Consolidated	76.4	82.3	79.0	92.2
EBITDA (Rs mn)				
Existing (including White Cement)	65,446	83,774	82,370	99,068
CENT*	-	3,980	7,588	10,678
UNCL^	558	4,366	4,328	5,232
UTCEM- India	66,004	92,120	94,286	1,14,978
ETA Star & other subsidiaries	1,877	2,046	1,908	2,326
Consolidated	67,881	94,166	96,194	1,17,304
EBITDA (Rs/te)				
Existing (including White Cement)	915	1,277	1,312	1,352
CENT*	-	423	833	995
UNCL^	475	1,169	1,215	1,231
UTCEM- India	908	1,170	1,249	1,303
ETA Star & other subsidiaries	510	573	542	593
Consolidated	889	1,144	1,218	1,273

Source: I-Sec research* *w.e.f. FY20; ^w.e.f. 20th Nov'18**Table 3: Performance trend and assumptions**

('000 te)	FY18	FY19	FY20	FY21E	FY22E
Capacity	85,635	1,00,060	1,14,760	1,16,760	1,21,960
Consolidated sales volumes	64,598	76,380	82,330	78,988	92,182
Capacity utilisation (%)	72	80	75	68	76
Growth (%)	21.1	18.2	7.8	(4.1)	16.7
Blended realisation (Rs/te)	4,795	4,815	5,038	5,025	5,090
Growth (%)	2.0	0.4	4.6	(0.2)	1.3

Source: Company data, I-Sec research

Table 4: Our FY21-FY22 EBITDA estimates are ~15% ahead of consensus

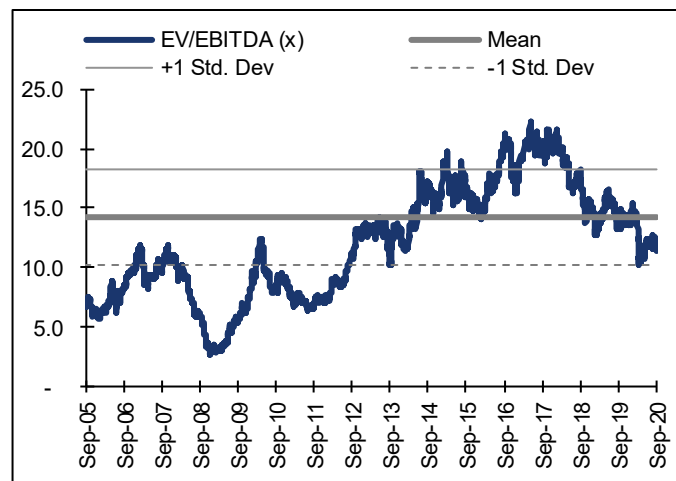
	I-Sec		Consensus		% chg	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	4,01,631	4,74,679	3,88,899	4,50,544	3.3	5.4
EBITDA	96,194	1,17,304	85,427	1,01,540	12.6	15.5
PAT	44,091	60,159	33,827	46,537	30.3	29.3

Source: Bloomberg, I-Sec research

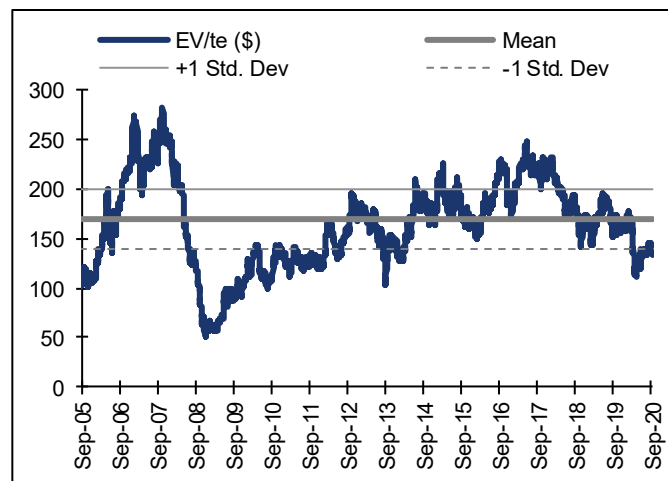
Table 5: Valuations based on 13x FY22E EV/E

Target EV/ EBITDA multiple (x)	13
Target EV (Rs mn)	1,524,953
Net debt / (cash) (Rs mn)	53,516
Target value (Rs mn)	1,471,436
No. of shares (mn)	289
Target price per share (Rs)	5,100

Source: Company data, I-Sec research

Chart 1: Rolling EV/EBITDA

Source: I-Sec research

Chart 2: Rolling EV/te

Source: I-Sec research

Financial summary (consolidated)

Table 6: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	3,67,747	4,14,760	3,96,934	4,69,207
Other operating income	6,045	6,488	4,697	5,472
Operating Expenses	3,05,911	3,27,083	3,05,437	3,57,375
EBITDA	67,881	94,166	96,194	1,17,304
% margin	18.2	22.4	24.0	24.7
Depreciation & Amortisation	21,398	27,022	26,617	28,056
Gross Interest	15,486	19,857	15,521	12,830
Other Income	4,381	6,478	8,910	9,500
Recurring PBT	35,378	53,765	62,965	85,918
Add: Extraordinaries	-	19,765	-	-
Less: Taxes	11,068	15,413	18,890	25,775
Less: Minority Interest	(37)	(32)	(16)	(16)
Net Income (Reported)	24,347	58,148	44,091	60,159
Recurring Net Income	24,347	38,384	44,091	60,159

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	1,14,185	1,15,992	1,35,739	1,49,495
Current Liab. & Prov.	95,500	1,24,042	1,25,659	1,29,131
Net Current Assets	18,685	(8,051)	10,080	20,364
Investments of which	29,213	59,287	59,287	59,287
Strategic/Group	1,908	4,300	4,300	4,300
Marketable	27,305	54,987	54,987	54,987
Net Fixed Assets*	4,43,860	5,46,413	5,33,218	5,31,111
Capital Work-in-Progress	29,506	9,095	6,486	6,736
Goodwill	28,471	62,525	62,525	62,525
Total Assets	5,49,736	6,69,269	6,71,595	6,80,023
of which Cash & cash equiv.	36,285	64,679	86,795	95,763

Liabilities				
Borrowings	2,30,307	2,28,979	1,91,979	1,44,979
Deferred Tax Liability	35,418	49,060	48,063	48,543
Minority Interest	122	75	59	43
Equity Share Capital	2,746	2,886	2,886	2,886
Face value per share (Rs)	10	10	10	10
Reserves & Surplus*	2,81,143	3,88,269	4,28,608	4,83,571
Net Worth	2,84,011	3,91,230	4,31,553	4,86,501
Total Liabilities	5,49,736	6,69,269	6,71,595	6,80,023

Source: Company data, I-Sec research

Table 8: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	94,910	101,760	105,790	75,630
% growth (YoY)	4.4	(1.1)	(13.1)	(32.6)
Recurring EBITDA*	19,181	21,060	24,427	20,746
Margin (%)	20.2	20.7	23.1	27.4
Other income	1,537	1,682	1,979	2,788
Recurring Net Income	5,853	8,449	11,333	9,548

Source: Company data ; *including other operating income

Table 9: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	46,136	66,784	59,492	78,707
Working Capital changes	(9,374)	4,503	5,371	(2,259)
Capital Commitments	(15,039)	(17,037)	(9,891)	(25,250)
Net Operating FCF	21,723	54,249	54,972	51,198
Investing Activities	27,102	(26,266)	8,910	9,500
Issue of Share Capital	37	27	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(41,377)	(25,655)	(37,000)	(47,000)
Dividend paid	(3,462)	(3,800)	(3,752)	(5,195)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank	3,211	(2,985)	22,116	8,968

Source: Company data, I-Sec research

Table 10: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic)	89	201	153	208
Diluted Recurring EPS	89	133	153	208
Diluted Recurring CEPS	167	227	245	306
Dividend per share	12	13	13	18
Book Value	1,034	1,355	1,495	1,686
Growth Ratios (% YoY)				
Operating Income	19.0	12.7	(4.7)	18.2
EBITDA	10.5	38.7	2.2	21.9
Recurring Net Income	(1.2)	57.7	14.9	36.4
Diluted Recurring EPS	(1.2)	50.0	14.9	36.4
Diluted Recurring CEPS	6.1	36.0	8.1	24.8
Valuation Ratios (x)				
P/E	45.1	28.8	25.0	18.4
P/CEPS	23.0	16.9	15.6	12.5
P/BV	3.7	2.8	2.6	2.3
EV / EBITDA	19.1	13.5	12.6	9.9
EV / te (US\$)	187	148	139	127
EV / Operating Income	3.5	3.0	3.0	2.4
Operating Ratios (%)				
Raw Material / Sales	25	23	23	23
Other expenses / Sales	58	56	54	53
Other Income / PBT	12	12	14	11
Effective tax rate	31	29	30	30
Inventory (x)	5.8	5.4	4.8	5.4
Receivables (days)	25	22	21	19
Payable (days)	26	29	35	29
D/E (x)	0.8	0.6	0.4	0.2
Profitability Ratios (%)				
Rec. Net Income Margins	6.4	9.0	10.7	12.4
RoCE	6.8	8.6	9.3	11.7
RoNW	8.9	11.4	10.7	13.1
Dividend Payout	13.0	9.8	8.5	8.6

Source: Company data, I-Sec research

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