

View: Better show continues, attractive valuation; maintain Buy

- UTCEM reported results above estimates on all fronts. UTCEM posted 7.7% YoY growth in revenue to Rs103.5 bn led by 7.6% YoY volume growth to 20.1 mt coupled with 0.1% YoY increase (-0.9% QoQ) in realization to Rs5,162/tn. EBITDA/ APAT up 40.5%/ 113.1% YoY to Rs26.9 bn/ Rs12.3 bn.
- We expect 4.6%/ 7.9%/ 15.6% revenue/ EBITDA/ APAT CAGR over FY20-23E led by -2.9%/ 7.9%/ 5.7% volume growth and 1.3%/ 1.0%/ 1.0% realization growth in FY21E/ FY22E/ FY23E.
- We increase our revenue/ EBITDA margin/ APAT estimates by 9.3%/ 159 bps/ 26.5% for FY21E factoring H1FY21 results. We broadly maintain FY22E estimates and introduce FY23E.
- UTCEM will continue to witness healthy operating cash flow (average Rs84.3 bn/year) and free cash flow (average Rs57.0 bn/year) leading to further deleveraging (Net D:E of 0.0.7x in FY23E vs. 0.42x FY20). UTCEM, being the largest player in Indian cement industry is its biggest advantage. Thus, we maintain Buy with an upward revised TP of Rs5,736 based on 15x (5% discount to 5-year average) consolidated Sept'22E EV/EBITDA.

EBITDA/tn - up 30.6%/ -5.1% YoY/ QoQ

Higher than anticipated volume (+7.6% YoY/ +36.8% QoQ to 20.1mt), coupled with higher than expected realization (+0.1% YoY/ -0.9% QoQ to Rs5,162/tn) and lower than expected operating cost/ tn (-7.5% YoY/ +0.7% QoQ to Rs3,818/tn) helped UTCEM to report EBITDA/tn of Rs1,343 (+30.6% YoY, -5.1% QoQ).

Management Outlook

UTCEM expects cement industry to witness positive growth in H2FY21E led by strong demand from sustainable rural trade segment. All the states are showing positive growth (except Maharashtra). Utilization is inching up and currently stands at 80-85%. Net Debt down Rs25.2 bn QoQ to Rs121.3 bn. Net Debt/ EBITDA down to 1.22x vs. 1.7x in Mar'20 and has a target to achieve 1x by Mar'21E.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	1,03,542	96,151	7.7	76,338	35.6
Total Expense	76,593	76,965	(0.5)	55,592	37.8
EBITDA	26,949	19,186	40.5	20,746	29.9
Depreciation	6,724	6,684	0.6	6,462	4.1
EBIT	20,225	12,502	61.8	14,284	41.6
Other Income	1,349	1,470	(8.2)	2,788	(51.6)
Interest	3,568	5,071	(29.6)	3,930	(9.2)
EBT	21,363	8,901	140.0	14,716	45.2
Tax	5,662	3,113	81.9	3,603	57.1
RPAT	15,696	5,791	171.0	11,122	41.1
APAT	19,053	5,791	229.0	12,205	56.1
			(bps)		(bps)
Gross Margin (%)	44.0	41.8	225	45.5	(143)
EBITDA Margin (%)	26.0	20.0	607	27.2	(115)
NPM (%)	15.2	6.0	914	14.6	59
Tax Rate (%)	26.5	35.0	(847)	24.5	202
EBIT Margin (%)	19.5	13.0	653	18.7	82

CMP	Rs 4,629
Target / Upside	Rs 5,736 / 24%
NIFTY	11,938

Scrip Details

Equity / FV	Rs 2,886mn / Rs 10
Market Cap	Rs 1,336bn
	USD 18bn
52-week High/Low	Rs 4,754/ 2,910
Avg. Volume (no)	6,14,899
Bloom Code	UTCEM IN

Price Performance	1M	3M	12M
Absolute (%)	19	20	8
Rel to NIFTY (%)	12	13	4

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	60.0	60.0	59.9
MF/Banks/FIs	14.2	14.6	15.4
FIIIs	16.5	16.1	15.3
Public / Others	9.3	9.3	9.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	29.2	26.3	23.4
EV/EBITDA	14.5	13.1	11.9
ROE (%)	11.1	11.2	11.4
RoACE (%)	9.1	9.6	9.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	4,14,391	4,51,754	4,82,188
EBITDA	1,01,755	1,09,595	1,16,740
PAT	45,700	50,805	57,186
EPS (Rs.)	158.3	176.0	198.1

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

Particulars	Actual	DART Est	% Variance	Comments
Revenue (Rs mn)	103,542	85,965	20.4	+17.9%/ +2.1% higher/ higher than estimated volume/ realization
EBITDA (Rs mn)	26,949	19,083	41.2	+2.1%/ -2.9% higher/ lower than estimated realization/ cost
EBITDA%	26.0	22.2	383	
PAT (Rs mn)	12,338	7,233	70.6	Led by better operating performance

Source: Company, DART

Exhibit 2: Change in estimates – Upgrade FY21E, broadly maintain FY22E and introduce FY23E estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	% change	New	Old	% change	New	Old	%change
Net revenues	4,14,391	3,78,991	9.3	4,51,754	4,40,199	2.6	4,82,188	-	-
EBIDTA	1,01,755	87,050	16.9	1,09,595	1,02,703	6.7	1,16,740	-	-
EBIDTA margin (%)	24.6	23.0	159	24.3	23.3	93	24.2	-	-
Adj. Net Profit	45,700	36,138	26.5	50,805	47,170	7.7	57,186	-	-
EPS (Rs)	158.3	125.2	26.5	176.0	163.4	7.7	198.1	-	-

Source: DART, Company

Exhibit 3: Volume, Realization & Cost/tn Analysis

(Rs)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume(MT)	20.1	18.6	7.6	14.7	36.8	34.72	40.07	(13.3)
Realization/tn (Rs)	5,162	5,157	0.1	5,207	(0.9)	5,181	5,248	(1.3)
EBITDA/tn (Rs)	1,343	1,029	30.6	1,415	(5.1)	1,374	1,215	13.1
Cost/tn (Rs)	3,818	4,128	(7.5)	3,792	0.7	3,807	4,033	(5.6)
Raw Material Cost/tn (Rs)	828	803	3.1	810	2.2	820	766	7.0
Employee Expenses/tn (Rs)	281	342	(17.9)	382	(26.5)	324	308	5.1
Power and Fuels/tn (Rs)	916	1,055	(13.2)	935	(2.1)	924	1,076	(14.1)
Freight Expenses/tn (Rs)	1,146	1,145	0.1	1,095	4.6	1,124	1,174	(4.2)
Other expenses/tn (Rs)	648	783	(17.2)	569	13.8	615	709	(13.2)

Source: Company, DART

Exhibit 4: % of Revenue

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Raw Material Cost	16.0	15.6	46	15.6	49	15.8	14.6	8.4
Employee Expenses	5.4	6.6	(120)	7.3	(190)	6.2	5.9	6.4
Power and Fuels	17.7	20.5	(272)	18.0	(21)	17.8	20.5	(13.0)
Freight Expenses	22.2	22.2	0	21.0	116	21.7	22.4	(3.0)
Other expenses	12.5	15.2	(263)	10.9	161	11.9	13.5	(12.1)

Source: Company, DART

Exhibit 5: Valuation

Particulars	Rs mn
Assumed EV/EBITDA multiple (x)	15
EBITDA (Sep'22E)	1,13,168
EV	16,97,518
Less: Net Debt (Sep'22E)	59,009
50% of FY23E Capital WIP	17,098
Mcap	16,55,607
Shares o/s (mn)	289
Target Price	5,736
CMP (Rs)	4,629
Upside (%)	23.9

Source: Company, DART

Exhibit 6: Income statement (Consolidated)

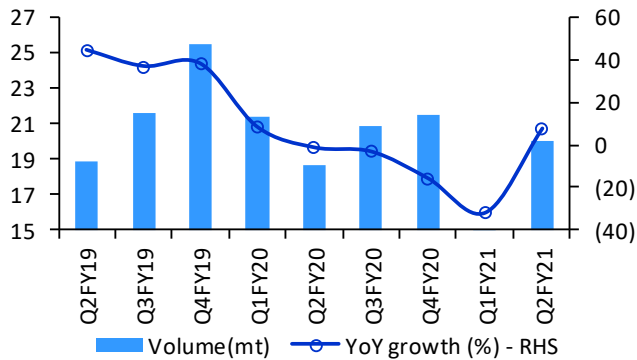
Particulars (Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total Revenue	1,03,542	96,151	7.7	76,338	35.6	1,79,880	2,10,254	(14.4)
Raw Material Cost	16,609	14,977	10.9	11,873	39.9	28,481	30,709	(7.3)
Employee Expenses	5,636	6,384	(11.7)	5,604	0.6	11,240	12,344	(8.9)
Power and Fuel	18,372	19,671	(6.6)	13,708	34.0	32,080	43,103	(25.6)
Freight Cost	22,983	21,341	7.7	16,059	43.1	39,041	47,030	(17.0)
Other expenses	12,994	14,592	(10.9)	8,348	55.7	21,342	28,388	(24.8)
Total Expenditure	76,593	76,965	(0.5)	55,592	37.8	1,32,185	1,61,575	(18.2)
PBIDT (Excl. OI)	26,949	19,186	40.5	20,746	29.9	47,695	48,679	(2.0)
Other Income	1,349	1,470	(8.2)	2,788	(51.6)	4,137	2,817	46.9
Depreciation	6,724	6,684	0.6	6,462	4.1	13,186	13,568	(2.8)
EBIT	21,574	13,972	54.4	17,072	26.4	38,646	37,928	1.9
Interest	3,568	5,071	(29.6)	3,930	(9.2)	7,498	10,100	(25.8)
EBT (before EO)	18,006	8,901	102.3	13,142	37.0	31,148	27,828	11.9
Exceptional items	(3,357)	-	-	(1,574)	113.3	(4,931)	-	-
EBT (after EO)	14,648	8,901	64.6	11,568	26.6	26,217	27,828	(5.8)
Tax	5,662	3,113	81.9	3,603	57.1	9,265	9,231	0.4
Share of P/L of associate and JV (net of tax)	2	(2)	(166.7)	(2)	(169.6)	(1)	1	(163.6)
Minority interest	7	(6)	(232.7)	(11)	(165.2)	(4)	(3)	18.2
RPAT	8,981	5,791	55.1	7,974	12.6	16,955	18,602	(8.8)
Adjustment	3,357	-	-	1,083	209.9	4,441	-	-
APAT	12,338	5,791	113.1	9,058	36.2	21,396	18,602	15.0
Adj. EPS (Rs)	42.7	20.1	113.1	31.4	36.2	74.1	64.4	15.0
			bps		bps			bps
EBIDTA Margin (excl. O.I.)	26.0	20.0	607	27.2	(115)	26.5	23.2	336
NPM (%)	11.9	6.0	589	11.9	5	11.9	8.8	305
Tax Rate (%)	38.6	35.0	368	31.1	750	35.3	33.2	217

Source: DART, Company

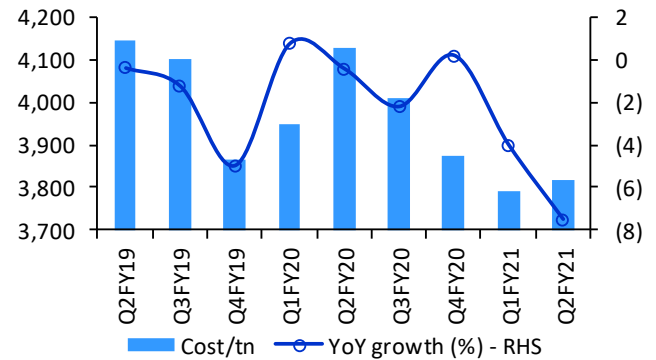
Key earnings takeaways

- **Demand and Industry** – Demand is strong led by rural retail which led by good monsoon. More than 50% of rural districts have shown growth over their past few performances. This uptick in demand is not pent up demand as ascribed initially. Urban demand also coming back slowly. New capacity addition will slow down as very less limestone mines are available. Key drivers of demand are rural housing and infra. Gujarat is showing strong signs of recovery in Sept'20 but Maharashtra is a bit slow. All states showing growth except Maharashtra. Central and East region running at full capacity led by solid demand. North region demand coming from road projects and housing. AP, Telangana and TN starting to see positive demand particularly from Irrigation projects. Non-trade demand picking up led by Infra segment. Non-trade: Trade mix stood at 70:30 in Q2FY21 vs. 78:22 in Q1FY21 vs. 67:33 in Q2FY20 and management expects the mix to remain at current level.
- **Management outlook** – Expects UTCCEM to outgrow the industry. UTCCEM expects good demand in trade segment in rural areas going forward. Plans to add additional 50 mtpa capacity by FY30. FCFF will be used for future growth rather than increasing dividend payout. Non-trade segment looking strong led by road segment. Industry will show positive growth in H2FY21E. Volume de-growth of 0-5% for FY21E is a fair assumption. FY22E will be blockbuster year for the industry and company due to low base of FY22E.
- **Cement Prices** are marginally down due to monsoon in Q2FY21, however Sept'20 exit prices are quite strong and there are news of price hikes in Oct'20. UltraTech's realization decreased 2-3% QoQ.
- **Utilization** for UTCCEM is increasing month on month and stood at 80-85% in Oct'20 vs. 75% in Sep'20 vs. 67% in Q2FY21.
- **Cost** – Petcoke prices are increasing, currently at \$100. UTCCEM's pet coke consumption rate stood at \$71 for Q2FY21 which is 1% up QoQ and 22% down YoY. Having some inventory at \$71. Ultratech shifting to international coal, pet coke usage at 75% in Q2FY21 vs. 64% Q2FY20. Expect P&F cost not to increase more than 10% in H2FY21E. Fixed costs will decrease in FY21E by Rs5.5 bn, already down by Rs4.5 bn in H1FY21.
- **WHRS & Solar Capacity** – WHRS capacity now at 120 MW, will increase to 180 MW/ 240 MW by FY22E/ FY24E. Plans to add solar capacity of 350 MW out of which 115-120MW is done. Target to achieve 30% of energy as green energy by FY22E.
- **Century** – 1st year of operations, Capacity utilization in Sep'20 ~68%, Pet coke usage ~74% (Q1FY21: 73%), >Rs700/tn EBITDA/tn in Q2FY21. Brand transition is slow and should complete by Mar'21E. 20MW WHRS plant of Century going on and should commission by Mar'22E.
- **Nathdwara** - ~60% capacity utilization, continuously achieving EBITDA of >Rs 1500/mt,
- **Capex and Expansion** – Will commission 2.3mtpa Dalla super clinker in Q4FY22E. Bara Phase 2 bit slow but on track and expected to commission by Mar'21E. Expect WB & Bihar grinding units of 1.2mtpa to commission by Q2-Q3FY22E and 2.2mtpa Cuttack (Odisha) plants to commission by Q4FY22E. H1FY21 capex is Rs5.2 bn and expect FY21E target of Rs12-13 bn vs. earlier guidance of Rs15 bn. UTCCEM will start work on 3.5mtpa Pali expansion by next year and expect to commission by Oct-Dec22E. Industry capex will return to normalcy and deferred capex will come back as labour coming back on stream.

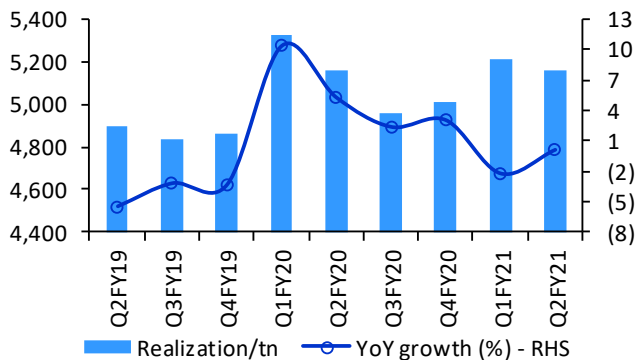
- **Debt** – Net debt reduced by Rs25.19 bn/ Rs47.28 in Q2FY21/ H1FY21, Consolidated Net Deb/EBITDA reduced to 1.22x in Sep'20 v/s 1.70x in Mar'20, target to achieve 1x by Mar'21.
- **Working capital** – UTCEM witnessed working capital released of Rs2.97 bn/ Rs8 bn in Q2FY21/ H1FY21.
- **White cement & RMC** – Gained market share in White cement and Putty and difficult to gauge RMC market share as unorganized players are more. Both segments reported revenue of Rs4.3 bn each in Q2FY21. White cement and Putty volume stood at 0.33 mt.
- Out of 41 kilns of Ultratech some will go for maintenance shut down in Q3FY21 as well. Rs.100/tn spent in Q3FY20 for maintenance. Incentives this quarter was Rs30/ tn.

Exhibit 7: Volume (mt)


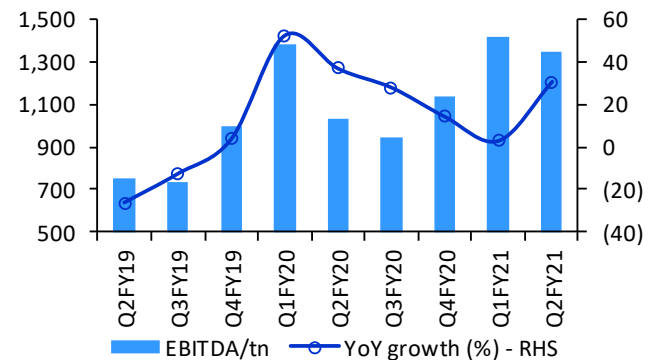
Source: Company, DART

Exhibit 8: Cost/tn (Rs)


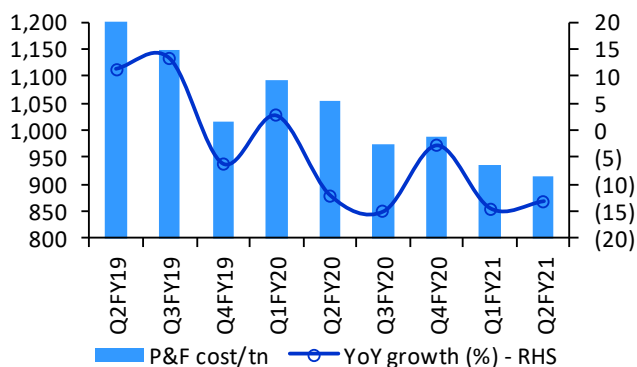
Source: Company, DART

Exhibit 9: Realization/tn (Rs)


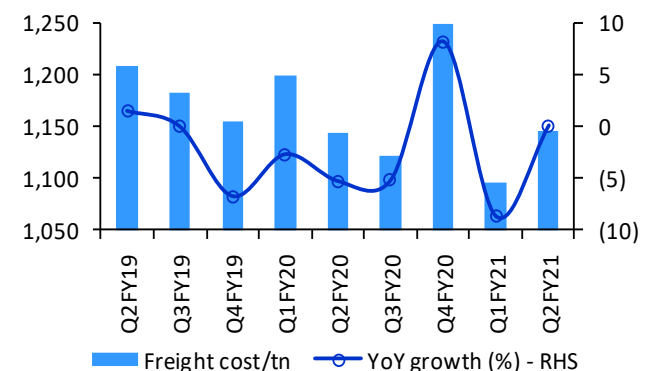
Source: Company, DART

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)	FY20A	FY21E	FY22E	FY23E
Revenue	4,21,248	4,14,391	4,51,754	4,82,188
Total Expense	3,28,413	3,12,635	3,42,158	3,65,448
COGS	2,45,064	2,35,304	2,58,041	2,75,785
Employees Cost	25,094	23,589	25,240	26,880
Other expenses	58,255	53,742	58,878	62,782
EBIDTA	92,836	1,01,755	1,09,595	1,16,740
Depreciation	27,022	28,038	29,250	30,182
EBIT	65,814	73,718	80,345	86,559
Interest	19,857	15,294	15,591	13,080
Other Income	6,478	7,449	7,822	8,213
Exc. / E.O. items	0	(4,931)	0	0
EBT	52,423	60,944	72,578	81,694
Tax	(5,682)	19,685	21,773	24,508
RPAT	58,148	41,259	50,805	57,186
Minority Interest	(44)	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	37,054	45,700	50,805	57,186

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	2,886	2,886	2,886	2,886
Minority Interest	75	75	75	75
Reserves & Surplus	3,88,269	4,25,776	4,72,251	5,25,108
Net Worth	3,91,155	4,28,662	4,75,137	5,27,994
Total Debt	2,28,979	2,07,979	1,76,979	1,45,979
Net Deferred Tax Liability	49,120	49,120	49,120	49,120
Total Capital Employed	6,69,329	6,85,836	7,01,312	7,23,168

Applications of Funds

Net Block	5,07,299	4,96,261	4,87,011	4,76,830
CWIP	71,721	71,721	76,721	96,721
Investments	16,850	16,850	16,850	16,850
Current Assets, Loans & Advances	1,97,502	2,15,666	2,36,930	2,55,528
Current investments	42,437	40,000	42,000	42,000
Inventories	41,483	40,871	43,319	46,237
Receivables	22,383	24,977	25,991	27,742
Cash and Bank Balances	5,392	25,767	38,138	49,102
Loans and Advances	14,294	13,344	12,394	11,444
Other Current Assets	71,513	70,707	75,087	79,002
Less: Current Liabilities & Provisions	1,24,042	1,14,661	1,16,200	1,22,760
Payables	35,014	30,654	29,704	31,706
Other Current Liabilities	89,028	84,008	86,495	91,054
<i>sub total</i>				
Net Current Assets	73,459	1,01,005	1,20,730	1,32,768
Total Assets	6,69,329	6,85,836	7,01,312	7,23,168

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	41.8	43.2	42.9	42.8
EBIDTA Margin	22.0	24.6	24.3	24.2
EBIT Margin	15.6	17.8	17.8	18.0
Tax rate	(10.8)	32.3	30.0	30.0
Net Profit Margin	8.8	11.0	11.2	11.9
(B) As Percentage of Net Sales (%)				
COGS	58.2	56.8	57.1	57.2
Employee	6.0	5.7	5.6	5.6
Other	13.8	13.0	13.0	13.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.6	0.5	0.4	0.3
Interest Coverage	3.3	4.8	5.2	6.6
Inventory days	36	36	35	35
Debtors days	19	22	21	21
Average Cost of Debt	8.2	7.0	8.1	8.1
Payable days	30	27	24	24
Working Capital days	64	89	98	101
FA T/O	0.8	0.8	0.9	1.0
(D) Measures of Investment				
AEPS (Rs)	128.4	158.3	176.0	198.1
CEPS (Rs)	222.0	255.5	277.4	302.7
DPS (Rs)	13.2	13.0	15.0	15.0
Dividend Payout (%)	10.3	8.2	8.5	7.6
BVPS (Rs)	1355.2	1485.2	1646.2	1829.3
RoANW (%)	10.2	11.1	11.2	11.4
RoACE (%)	11.8	9.1	9.6	9.9
RoAIC (%)	10.0	11.1	12.1	12.9
(E) Valuation Ratios				
CMP (Rs)	4629	4629	4629	4629
P/E	36.1	29.2	26.3	23.4
Mcap (Rs Mn)	13,36,074	13,36,074	13,36,074	13,36,074
MCap/ Sales	3.2	3.2	3.0	2.8
EV	15,17,225	14,78,287	14,32,916	13,90,952
EV/Sales	3.6	3.6	3.2	2.9
EV/EBITDA	16.3	14.5	13.1	11.9
P/BV	3.4	3.1	2.8	2.5
Dividend Yield (%)	0.3	0.3	0.3	0.3
(F) Growth Rate (%)				
Revenue	1.2	(1.6)	9.0	6.7
EBITDA	26.4	9.6	7.7	6.5
EBIT	34.4	12.0	9.0	7.7
PBT	51.1	16.3	19.1	12.6
APAT	47.2	23.3	11.2	12.6
EPS	47.2	23.3	11.2	12.6

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	89,020	71,259	86,381	95,266
CFI	(41,151)	(10,838)	(23,089)	(35,894)
CFF	(49,911)	(40,046)	(50,920)	(48,409)
FCFF	71,958	54,259	61,381	55,266
Opening Cash	7,397	5,392	25,767	38,138
Closing Cash	5,392	25,767	38,138	49,102

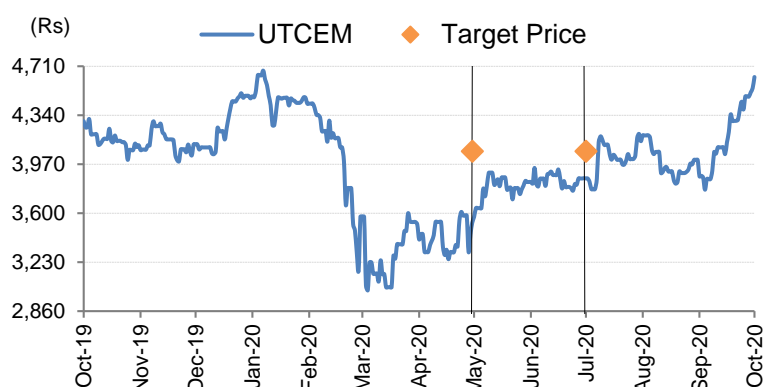
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



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

*Price as on recommendation date

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