

# Ultratech Cement

Refer to important disclosures at the end of this report

## Strong performance continues, maintain Buy

CMP: Rs 4,629  
as of (October 21, 2020)

TP: Rs 5,533 (■)  
12 months

Rating: BUY (■)

Upside: 19.5 %

- UltraTech reported strong Q2 results supported by higher realization and lower opex. Consolidated EBITDA stood at Rs26.95bn vs. estimated Rs24.02bn and OPM at 26% vs. our estimate of 23.6%. EBITDA/ton came in at Rs1,343 vs. estimated Rs1,242.
- Key positives: 1) 14% yoy decline in fixed costs (10% of fixed cost reduction sustainable); 2) RMC revenue decline of only 15% yoy; 3) further reduction of Rs25.2bn in consolidated net debt; 4) consolidated net debt/EBITDA at 1.22x vs. 1.7x in Mar'20.
- Management believes that Oct'20 utilization is at 80-85% vs. 75%/66% in Sep'20/Q2FY21. Demand from rural markets continued to improve and 50%+ rural districts have shown improvement. Urban demand too has recently started improving.
- UTCEM will benefit from cost saving initiatives (reduction in lead distance, commissioning of WHRS, solar power plants, etc.). Debt reduction will help in improving the balance sheet further. UltraTech is our top large-cap pick with a Buy rating and OW in sector EAP.

**Higher volumes and cost reductions help:** UTCEM benefitted from demand recovery and cost saving initiatives in Q2. Sales volume increased 7.3% yoy to 20.1mt. Management highlighted that UTCEM has achieved volume growth in all regions, except the West region. Grey cement realization was up 1.9% yoy, though it declined 4% qoq (as per our calculations) as cement prices declined in Q2. Trade sales also declined 6-7pp qoq as there was a gradual recovery in infrastructure led demand. RMC revenue fell 15% yoy, though white cement revenue grew 3% yoy. Blended realization was up 0.3% yoy but down 0.9% qoq. Cost-saving initiatives led to a 14% yoy reduction in fixed costs, and management believes that 10% of cost savings will be sustained. Employee cost fell 11.9% yoy. Variable cost/ton was down Rs123 yoy. Energy cost/ton fell 12.9% yoy, whereas high diesel prices led to 1.2% yoy/4.5% qoq increase in freight costs. Other expense/ton declined 10.9% yoy. Cost savings led to a 7.4% yoy reduction in opex/ton. Lower opex and higher realization/sales volume led to 40.5% yoy growth in EBITDA with 6.1pp improvement in OPM. EBITDA/ton stood at Rs1,343 vs. Rs1,026/Rs1,416 in Q2FY20/Q1FY21. Adjusted for EO items, profit increased 2.1x yoy.

**Cost savings to help; top pick in large cap space:** We prefer UTCEM for its a) cost saving strategies (investments in Waste Heat Recovery capacities, solar power plants, sustained fixed cost reduction guidance of Rs5-5.5bn), b) strong scope of future capacity additions (50mt of organic capacity addition can be achieved), c) leadership position in most of the markets where it operates, d) continued reduction in debt (Rs73.7bn/Rs3.6bn in FY22/23 vs. Rs181.2bn in FY20). Cement demand recovery has surprised positively and management mentioned that current utilization is at 80-85% (similar to Q4FY19) vs. average of 66% in Q2FY21. This indicates that the industry is operating at optimum utilization in few regions at present, which, if sustained, can lead to price improvements. We expect EPS to grow at a CAGR of 15.8% between FY20-23E. RoE is expected to improve to 12.5% in FY23E vs. 11.3% in FY20. We maintain a Buy rating with a TP of Rs5,533 (14x Dec-22 EV/EBITDA; 10-year average multiple of 14.5x). 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	4,23,665	4,80,781	5,23,955
EBITDA	73,469	92,836	98,068	1,06,800	1,18,509
EBITDA Margin (%)	17.7	22.0	23.1	22.2	22.6
APAT	25,137	41,036	45,257	53,804	63,718
EPS (Rs)	91.5	142.2	156.8	186.4	220.8
EPS (% chg)	(2.2)	55.3	10.3	18.9	18.4
ROE (%)	8.4	11.3	11.0	11.8	12.5
P/E (x)	50.6	32.6	29.5	24.8	21.0
EV/EBITDA (x)	20.4	16.3	15.0	13.2	11.3
P/BV (x)	3.8	3.4	3.1	2.8	2.5

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	156.8	186.4
Consensus	132.1	177.1
Mean Consensus TP (12M)	Rs 4,779	

### 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)	1,336 / 18.16
Daily Avg Volume (nos.)	6,17,442
Daily Avg Turnover (US\$ mn)	34.4

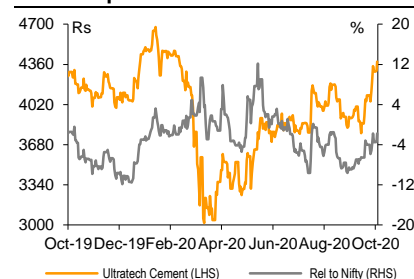
### Shareholding Pattern Sep '20

Promoters	59.9%
FIIIs	15.3%
DIIIs	15.4%
Public and Others	9.4%

### Price Performance

(%)	1M	3M	6M	12M
Absolute	19	20	36	8
Rel. to Nifty	12	12	2	5

### Relative price chart



Source: Bloomberg

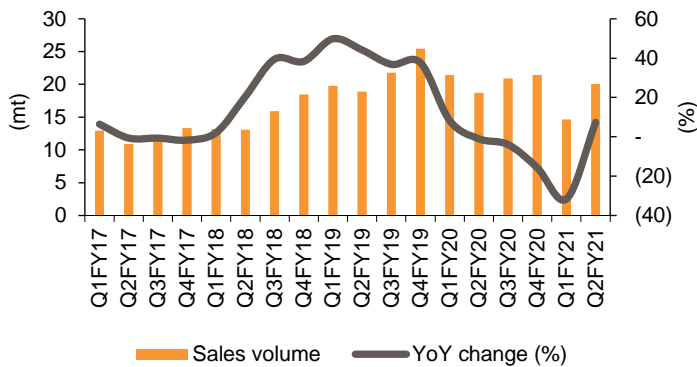
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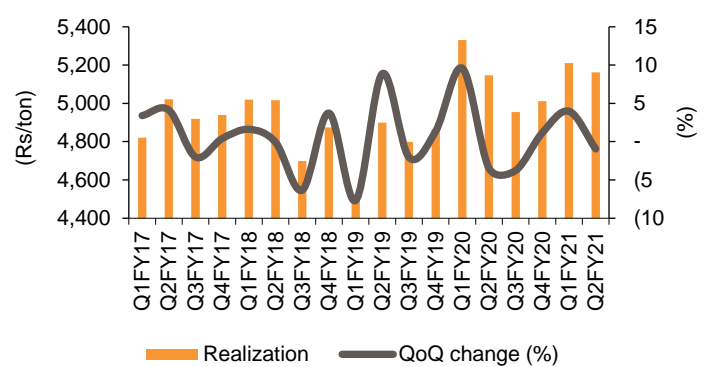
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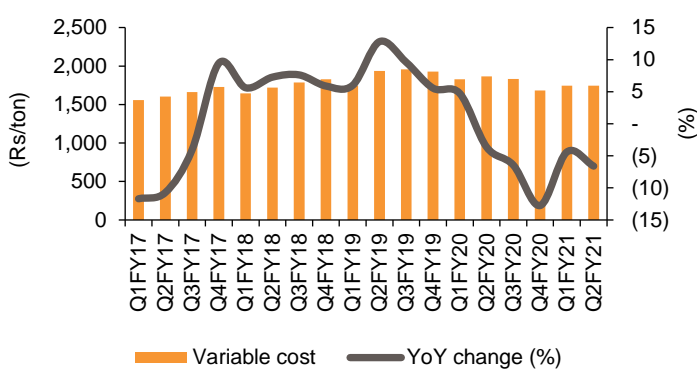
## Story in Charts

**Exhibit 1: Sales volume up 7.3% yoy**


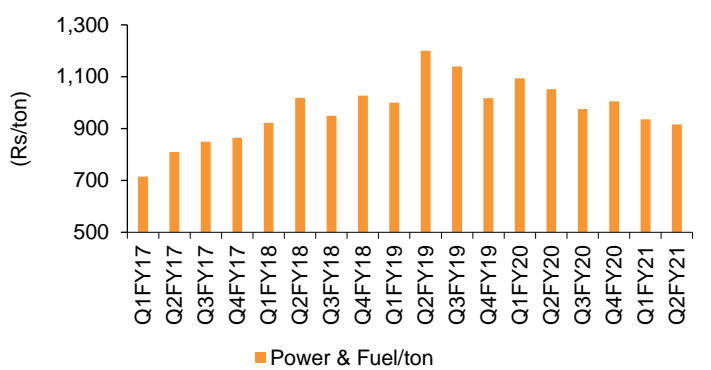
Source: Emkay Research, Company

**Exhibit 2: Blended realization up 0.3% yoy/down 0.9% qoq**


Source: Emkay Research, Company

**Exhibit 3: Variable cost/ton down Rs123 yoy**


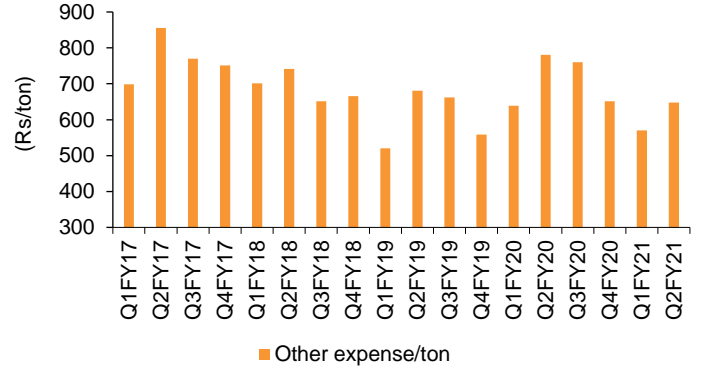
Source: Emkay Research, Company

**Exhibit 4: Energy cost/ton down 12.9% yoy/2.1% qoq**


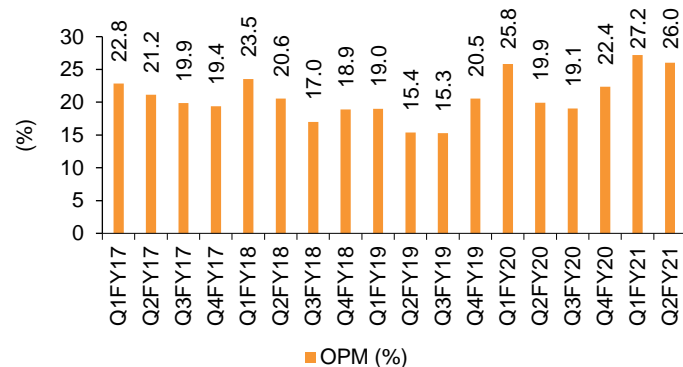
Source: Emkay Research, Company

**Exhibit 5: Freight cost/ton up 1.2% yoy/4.5% qoq**

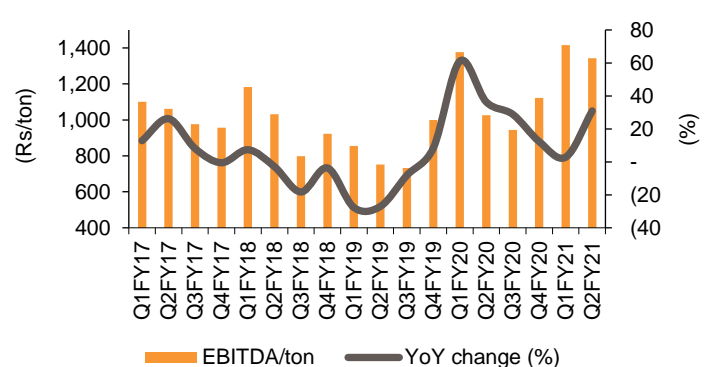

Source: Emkay Research, Company

**Exhibit 6: Other expenses/ton down 17% yoy/up 13.7% qoq**


Source: Emkay Research, Company

**Exhibit 7: Consolidated OPM expands 6.1pp yoy**


Source: Company, Emkay Research

**Exhibit 8: EBITDA/ton at Rs1,343 (up 30.9% yoy)**


Source: Company, Emkay Research

**Exhibit 9: Actual vs estimates (Q2FY21)**

Consolidated (in Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	1,03,542	1,01,740	91,402	1.8	13.3	In line with estimates
EBITDA	26,949	24,019	20,438	12.2	31.9	Led by lower energy and RM costs
EBITDA margin (%)	26.0	23.6	22.4	242bps	367bps	
Adj. PAT	12,344	11,577	8,354	6.6	47.8	Led by higher operating profit

Source: Company, Emkay Research, Bloomberg

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

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Revenue</b>	<b>92,700</b>	<b>99,818</b>	<b>1,03,594</b>	<b>73,736</b>	<b>1,00,186</b>	<b>8.1</b>	<b>35.9</b>	<b>1,73,922</b>	<b>2,03,069</b>	<b>(14.4)</b>
<b>Expenditure</b>	<b>74,574</b>	<b>80,625</b>	<b>81,273</b>	<b>54,185</b>	<b>74,659</b>	<b>0.1</b>	<b>37.8</b>	<b>1,28,843</b>	<b>1,57,034</b>	<b>(18.0)</b>
as % of sales	80%	81%	78%	73%	75%			74%	77%	
Consumption of RM	10,361	13,597	11,284	9,624	13,332	28.7	38.5	22,956	21,113	8.7
as % of sales	11%	14%	11%	13%	13%			13%	10%	
Employee Expenses	5,929	5,767	6,123	5,176	5,223	(11.9)	0.9	10,398	11,472	(9.4)
as % of sales	6%	6%	6%	7%	5%			6%	6%	
Power, Oil & Fuel	17,939	18,413	19,324	12,349	16,810	(6.3)	36.1	29,158	39,282	(25.8)
as % of sales	19%	18%	19%	17%	17%			17%	19%	
Freight & Handling	21,235	23,397	26,411	15,905	22,764	7.2	43.1	38,669	46,933	(17.6)
as % of sales	23%	23%	25%	22%	23%			22%	23%	
Other Expenses	19,110	19,451	18,131	11,132	16,530	(13.5)	48.5	27,662	38,234	(27.7)
as % of sales	21%	19%	18%	15%	16%			16%	19%	
<b>EBITDA</b>	<b>18,126</b>	<b>19,193</b>	<b>22,321</b>	<b>19,552</b>	<b>25,527</b>	<b>40.8</b>	<b>30.6</b>	<b>45,079</b>	<b>46,035</b>	<b>(2.1)</b>
Depreciation	6,063	6,137	5,861	5,887	6,127	1.1	4.1	12,013	12,323	(2.5)
<b>EBIT</b>	<b>12,063</b>	<b>13,056</b>	<b>16,460</b>	<b>13,665</b>	<b>19,401</b>	<b>60.8</b>	<b>42.0</b>	<b>33,066</b>	<b>33,712</b>	<b>(1.9)</b>
Other Income	1,820	1,640	2,239	2,961	1,465	(19.5)	(50.5)	4,426	3,392	30.5
Interest	4,372	4,026	3,745	3,334	3,019	(30.9)	(9.4)	6,354	8,693	(26.9)
<b>PBT</b>	<b>9,511</b>	<b>10,670</b>	<b>14,954</b>	<b>13,292</b>	<b>17,846</b>	<b>87.6</b>	<b>34.3</b>	<b>31,138</b>	<b>28,411</b>	<b>9.6</b>
Total Tax	3,119	2,907	2,466	3,663	5,693	82.5	55.4	9,355	9,351	0.1
<b>Adjusted PAT</b>	<b>6,392</b>	<b>7,764</b>	<b>12,488</b>	<b>9,629</b>	<b>12,153</b>	<b>90.1</b>	<b>26.2</b>	<b>21,782</b>	<b>19,061</b>	<b>14.3</b>
Extra ordinary items	0	1,332	(16,575)	(1,574)	(66)			(1,640)	0	
<b>Reported PAT</b>	<b>6,392</b>	<b>6,432</b>	<b>29,063</b>	<b>11,203</b>	<b>12,219</b>	<b>91.2</b>	<b>9.1</b>	<b>23,422</b>	<b>19,061</b>	<b>22.9</b>
<b>Adjusted EPS</b>	<b>23.3</b>	<b>28.3</b>	<b>45.5</b>	<b>33.4</b>	<b>42.1</b>	<b>80.9</b>	<b>26.2</b>	<b>75.5</b>	<b>69.4</b>	<b>8.7</b>

Margins (%)						bps	bps			bps
EBIDTA	19.6	19.2	21.5	26.5	25.5	593	(104)	25.9	22.7	325
EBIT	13.0	13.1	15.9	18.5	19.4	635	83	19.0	16.6	241
EBT	10.3	10.7	14.4	18.0	17.8	755	(21)	17.9	14.0	391
PAT	6.9	7.8	12.1	13.1	12.1	524	(93)	12.5	9.4	314
Effective Tax rate	32.8	27.2	16.5	27.6	31.9	(90)	435	30.0	32.9	(287)

Source: Company, Emkay Research

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

Particulars (Rs/ton)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
Cement Volumes (mt)	17.8	20.0	20.5	13.9	19.2	8.1	37.8	33.2	38.2	(13.3)
Raw Material Consumed	624	617	661	530	619	(0.7)	16.8	582	620	(6.2)
Stock Adjustment	(40)	63	(111)	160	75	n/m	(53.2)	111	(68)	n/m
Purchase of Finished Goods	318	283	245	235	237	(25.6)	0.6	236	313	(24.4)
Employee Expenses	334	288	298	371	272	(18.5)	(26.8)	314	300	4.6
Power, Oil & Fuel	1,009	921	942	886	875	(13.3)	(1.2)	880	1,027	(14.4)
Freight	1,195	1,170	1,287	1,141	1,185	(0.8)	3.9	1,166	1,227	(5.0)
Other Expenses	757	690	639	563	624	(17.6)	10.7	834	1,000	(16.5)
<b>Total Cost</b>	<b>4,197</b>	<b>4,031</b>	<b>3,961</b>	<b>3,887</b>	<b>3,886</b>	<b>(7.4)</b>	<b>(0.0)</b>	<b>3,887</b>	<b>4,107</b>	<b>(5.4)</b>
Realization (Grey Cement)	4,849	4,648	4,711	5,144	4,941	1.9	(4.0)	5,027	4,969	1.2
Realization (Blended)	5,217	4,991	5,048	5,290	5,215	(0.0)	(1.4)	5,247	5,310	(1.2)
<b>EBIDTA</b>	<b>1,020</b>	<b>960</b>	<b>1,088</b>	<b>1,403</b>	<b>1,329</b>	<b>30.3</b>	<b>(5.3)</b>	<b>1,360</b>	<b>1,204</b>	<b>13.0</b>

Source: Company, Emkay Research

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

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Revenue</b>	<b>96,205</b>	<b>1,03,538</b>	<b>1,07,447</b>	<b>76,338</b>	<b>1,03,542</b>	<b>7.6</b>	<b>35.6</b>	<b>1,79,880</b>	<b>2,10,402</b>	<b>(14.5)</b>
<b>Expenditure</b>	<b>77,024</b>	<b>83,808</b>	<b>83,395</b>	<b>55,592</b>	<b>76,593</b>	<b>(0.6)</b>	<b>37.8</b>	<b>1,32,185</b>	<b>1,61,728</b>	<b>(18.3)</b>
as % of sales	80.1	80.9	77.6	72.8	74.0			0.7	0.8	
Consumption of RM	15,238	17,881	14,540	11,873	16,609	9.0	39.9	28,481	30,929	(7.9)
as % of sales	15.8	17.3	13.5	15.6	16.0			0.2	0.1	
Employee Expenses	6,384	6,200	6,550	5,604	5,636	(11.7)	0.6	11,240	12,345	(8.9)
as % of sales	6.6	6.0	6.1	7.3	5.4			0.1	0.1	
Power, Oil & Fuel	19,658	20,394	21,556	13,708	18,372	(6.5)	34.0	32,080	43,090	(25.6)
as % of sales	20.4	19.7	20.1	18.0	17.7			0.2	0.2	
Freight & Handling	21,155	23,438	26,786	16,059	22,983	8.6	43.1	39,041	47,096	(17.1)
as % of sales	22.0	22.6	24.9	21.0	22.2			0.2	0.2	
Other Expenses	14,590	15,894	13,964	8,348	12,994	(10.9)	55.7	21,342	28,270	(24.5)
as % of sales	15.2	15.4	13.0	10.9	12.5			0.1	0.1	
<b>EBITDA</b>	<b>19,181</b>	<b>19,730</b>	<b>24,053</b>	<b>20,746</b>	<b>26,949</b>	<b>40.5</b>	<b>29.9</b>	<b>47,695</b>	<b>48,674</b>	<b>(2.0)</b>
Depreciation	6,684	6,730	6,434	6,462	6,724	0.6	4.1	13,186	13,568	(2.8)
<b>EBIT</b>	<b>12,497</b>	<b>13,000</b>	<b>17,619</b>	<b>14,284</b>	<b>20,225</b>	<b>61.8</b>	<b>41.6</b>	<b>34,509</b>	<b>35,106</b>	<b>(1.7)</b>
Other Income	1,537	1,682	1,979	2,788	1,349	(12.2)	(51.6)	4,137	2,884	43.5
Interest	5,071	4,708	4,351	3,930	3,568	(29.6)	(9.2)	7,498	10,100	(25.8)
<b>PBT</b>	<b>8,962</b>	<b>9,973</b>	<b>15,247</b>	<b>13,142</b>	<b>18,006</b>	<b>100.9</b>	<b>37.0</b>	<b>31,148</b>	<b>27,890</b>	<b>11.7</b>
Total Tax	3,113	2,862	2,466	3,603	5,662	81.9	57.1	9,265	9,231	0.4
<b>Adjusted PAT</b>	<b>5,849</b>	<b>7,111</b>	<b>12,781</b>	<b>9,539</b>	<b>12,344</b>	<b>111.0</b>	<b>29.4</b>	<b>21,883</b>	<b>18,659</b>	<b>17.3</b>
Extra ordinary items	(62)	(1,332)	19,627	(1,574)	(3,357)			(4,931)	(62)	
<b>Reported PAT</b>	<b>5,788</b>	<b>5,779</b>	<b>32,408</b>	<b>7,965</b>	<b>8,987</b>	<b>55.3</b>	<b>12.8</b>	<b>16,952</b>	<b>18,597</b>	<b>(8.8)</b>
(Profit)/loss from JV's/Ass/MI	(2)	1	-	-	-			-	1	
<b>PAT after MI</b>	<b>5,785</b>	<b>5,780</b>	<b>32,408</b>	<b>7,965</b>	<b>8,987</b>	<b>55.3</b>	<b>12.8</b>	<b>16,952</b>	<b>18,598</b>	<b>(8.9)</b>
<b>Adjusted EPS</b>	<b>21.3</b>	<b>25.9</b>	<b>46.5</b>	<b>33.0</b>	<b>42.8</b>	<b>100.8</b>	<b>29.5</b>	<b>75.8</b>	<b>67.9</b>	<b>11.6</b>

<b>Margins (%)</b>						<b>bps</b>	<b>bps</b>			<b>bps</b>
EBIDTA	19.9	19.1	22.4	27.2	26.0	609	(115)	26.5	23.1	338
EBIT	13.0	12.6	16.4	18.7	19.5	654	82	19.2	16.7	250
EBT	9.3	9.6	14.2	17.2	17.4	807	17	17.3	13.3	406
PAT	6.1	6.9	11.9	12.5	11.9	584	(57)	12.2	8.9	330
Effective Tax rate	34.7	28.7	16.2	27.4	31.4	(329)	403	29.7	33.1	(335)

Source: Company, Emkay Research

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

Particulars (Rs/ton)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY21	H1FY20	YoY (%)
Cement Volumes (mt)	18.7	20.9	21.4	14.7	20.1	7.3	36.9	34.7	40.1	(13.5)
Raw Material Consumed	696	663	671	561	665	(4.5)	18.4	621	676	(8.1)
Stock Adjustment	(30)	55	(107)	158	71	n/m	(54.9)	108	(61)	n/m
Purchase of Finished Goods	149	138	115	91	92	(38.4)	1.1	92	156	(41.3)
Employee Expenses	342	297	305	383	281	(17.7)	(26.6)	324	308	5.2
Power, Oil & Fuel	1,052	976	1,005	936	916	(12.9)	(2.1)	924	1,074	(14.0)
Freight	1,132	1,121	1,249	1,096	1,146	1.2	4.5	1,125	1,174	(4.2)
Other Expenses	781	760	651	570	648	(17.0)	13.7	615	705	(12.8)
<b>Total Cost</b>	<b>4,121</b>	<b>4,010</b>	<b>3,890</b>	<b>3,795</b>	<b>3,818</b>	<b>(7.4)</b>	<b>0.6</b>	<b>3,808</b>	<b>4,032</b>	<b>(5.6)</b>
Realization (Blended)	5,147	4,954	5,012	5,211	5,162	0.3	(0.9)	5,182	5,246	(1.2)
<b>EBIDTA</b>	<b>1,026</b>	<b>944</b>	<b>1,122</b>	<b>1,416</b>	<b>1,343</b>	<b>30.9</b>	<b>(5.1)</b>	<b>1,374</b>	<b>1,214</b>	<b>13.2</b>

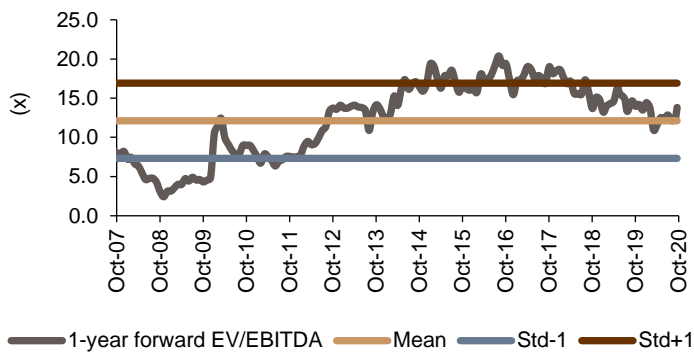
Source: Company, Emkay Research

## Exhibit 14: 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
<b>UltraTech Cement</b>	<b>1,336</b>	<b>15.0</b>	<b>13.2</b>	<b>11.3</b>	<b>168</b>	<b>161</b>	<b>153</b>	<b>156.8</b>	<b>186.4</b>	<b>220.8</b>	<b>29.5</b>	<b>24.8</b>	<b>21.0</b>
ACC*	305	10.6	9.3	8.5	101	99	99	69.4	79.6	87.3	23.4	20.4	18.6
Ambuja Cements*	503	14.4	13.0	10.9	163	150	143	8.7	9.1	10.5	29.0	27.8	24.1
India Cements	37	9.6	8.7	7.6	59	57	54	4.9	5.7	7.6	24.8	21.1	15.9
Ramco Cements	187	17.6	16.9	14.3	145	136	132	22.8	22.6	28.6	34.9	35.1	27.7
Shree Cements	763	20.9	17.9	15.5	226	211	205	450.4	530.3	604.3	46.9	39.9	35.0
JK Lakshmi Cement	33	6.2	5.4	4.6	44	41	38	20.0	23.7	27.8	13.9	11.7	10.0
JK Cement	150	14.3	13.1	11.7	138	137	135	57.2	67.2	79.8	34.0	28.9	24.4
Orient Cement	12	5.1	5.0	4.4	37	35	32	6.5	6.3	7.2	9.1	9.4	8.2
Prism Cement	36	14.8	10.6	9.0	101	100	98	-0.4	1.4	2.5	-182.5	49.9	28.7
Star Cement	34	8.5	6.5	5.7	78	72	68	6.1	7.5	7.9	13.7	11.2	10.5
Birla Corp	49	6.9	6.5	5.6	71	60	55	50.9	58.0	67.7	12.5	11.0	9.4

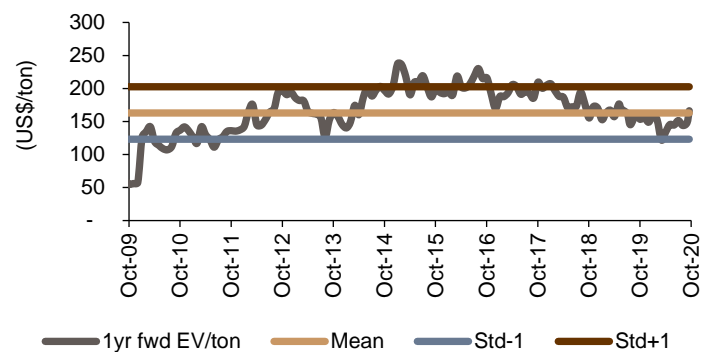
Source: Company, Emkay Research, \*December ending companies

## Exhibit 15: 1-yr forward EV/EBITDA chart



Source: Company, Emkay Research

## Exhibit 16: 1-yr forward EV/Ton chart



Source: Company, Emkay Research

## Concall highlights

- **Demand trends:** Demand from rural markets further strengthened in Q2 and 50%+ rural districts have shown improvement. Rural market penetration for UTCEM increased 5pp yoy. Higher rural sales led to improvement in trade sales compared to last year. UTCEM has 71% trade sales out of that 35-40% comes from rural markets (any town with a population of less than 30k is classified as a rural market). Urban demand has seen slight improvement in Sep-Oct'20 and housing demand too has started seeing some recovery. East and Central regions are operating at full utilization. In the North region, infrastructure demand is better, though housing demand too has started improving in NCR. South region too has started improving from Sep'20-end. In the West, Gujarat markets have started witnessing recovery, though Maharashtra continues to lag behind. Management believes that the sale of UltraTech as a brand has increased by 15% yoy in Q2 (last year Century was operating separately) and UTCEM has grown ahead of the industry in Q2.
- **Current utilization rates:** In Q2, average capacity utilization was at 66%, though Sep'20 utilization was at 75%. Current utilization is at 80-85%, similar to Q4FY19. Management believes that the industry will grow in Q2-Q4FY21, and FY22 should see meaningful growth (Q1FY21 was impacted due to Covid-19).
- **Realization trends:** Grey cement realization was down 2-3% qoq for UTCEM as it sold high volumes in the South region, where the price decline was lower. Management highlighted that UTCEM has achieved volume growth in all regions, except the West region. Incentives contributed Rs30/ton to EBITDA.
- **Opex trends:** Pet coke prices have increased to US\$100/ton, compared to an average price of US\$71/ton in Q2. This has forced the industry to shift to alternative high calorific international coal. Energy cost could increase 10% going forward. Diesel price increased 13% in Q2, which was absorbed through network optimization and shift to rail transports. Diesel contributes 2.5-3% to total operating costs. UTCEM achieved variable cost reduction of Rs4.5bn in H1 and cost reduction of Rs5-5.5bn will be sustained in the full year.
- **Update on Century plant:** This plant has been fully integrated and achieved a utilization rate of 68% in Sep'20. Pet coke usage was at 74% vs. 73% in Q1. Variable cost fell 12% yoy. EBITDA/ton was Rs700+. Brand transition has been delayed due to Covid-19-related challenges but will be completed before FY21-end. 20MW of WHRS capacities have been planned at Manikgarh and Maihar plants, which will reduce energy cost.
- **Update on UltraTech Nathdwara:** Capacity utilization was at 60% in Sep'20. Production cost has been reduced by 17% yoy and EBITDA/ton was in excess of Rs1,500.
- **Balance sheet and Debt levels:** Consolidated net debt has further fallen by Rs25.2bn to Rs121.32bn. Working capital has further declined Rs2.97bn in Q2. Working capital could rise by Rs2bn in H2FY21, but it will still be lower yoy. Consolidated net debt/EBITDA stands at 1.22x vs. 1.7x in Mar'20. Net debt/EBITDA is likely to be at 1x in Mar'21. UTCEM has treasury surplus of Rs100bn+, which generated higher yields than borrowing costs.
- **WHRS & solar power capacities:** Current WHRS capacity is 125MW, which will be increased to 185MW by FY22-end. Another 60MW WHRS capacities have been planned, which should be commissioned by mid-FY24. Solar power plant capacity is at 115-120MW, which will be increased to 350MW. WHRS will help the company to fulfill 20% of power requirements, while solar plants will cater to 10% of power requirements.
- **Trade/Non-trade mix:** Trade sales was up 3pp yoy (but down 6-7pp qoq) to 71%. Blended cement sales was at 71%, up 3pp yoy leading to improvement in C:C (Clinker to Cement) ratio by 2pp.
- **White Cement & RMC segments:** Revenue from White Cement and RMC segments came in at Rs4.34bn each. Sales volume of white cement and putty was at 0.33mt vs. 0.32mt in Q2FY20. Management believes that UTCEM has gained market share in white cement.
- **Capex plans:** Capex in FY21 will be Rs12-13bn (Rs4.5bn in H1FY21), lower than Rs15bn estimated at Q1FY21-end. Bara grinding unit will be completed in FY21, while the Dalla Super clinker plant will be commissioned by FY22-end. Grinding units in West Bengal and Bihar will be commissioned by Q3FY22, while Cuttack grinding unit will come in Q4FY22. Pali, Rajasthan, greenfield plant has to be commissioned by Q3FY23.



**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>4,23,665</b>	<b>4,80,781</b>	<b>5,23,955</b>
<b>Expenditure</b>	<b>3,42,619</b>	<b>3,28,413</b>	<b>3,25,596</b>	<b>3,73,980</b>	<b>4,05,446</b>
<b>EBITDA</b>	<b>73,469</b>	<b>92,836</b>	<b>98,068</b>	<b>1,06,800</b>	<b>1,18,509</b>
Depreciation	24,507	27,022	26,680	27,497	28,494
<b>EBIT</b>	<b>48,962</b>	<b>65,814</b>	<b>71,389</b>	<b>79,303</b>	<b>90,015</b>
Other Income	4,634	6,478	10,172	10,782	11,429
Interest expenses	17,779	19,857	17,092	13,442	10,678
<b>PBT</b>	<b>35,818</b>	<b>52,435</b>	<b>64,468</b>	<b>76,643</b>	<b>90,766</b>
Tax	10,681	11,399	19,212	22,840	27,048
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>23,998</b>	<b>58,117</b>	<b>45,257</b>	<b>53,804</b>	<b>63,718</b>
<b>Adjusted PAT</b>	<b>25,137</b>	<b>41,036</b>	<b>45,257</b>	<b>53,804</b>	<b>63,718</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	4,28,997	4,78,098	5,36,938
<b>Net worth</b>	<b>3,37,628</b>	<b>3,91,230</b>	<b>4,31,958</b>	<b>4,81,059</b>	<b>5,39,900</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>1,79,939</b>	<b>1,40,939</b>	<b>1,12,939</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>6,60,958</b>	<b>6,71,059</b>	<b>7,01,899</b>
<b>Net block</b>	<b>5,66,446</b>	<b>5,69,824</b>	<b>5,55,144</b>	<b>5,49,647</b>	<b>5,43,153</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>1,52,866</b>	<b>1,57,244</b>	<b>1,59,418</b>
Cash & bank balance	7,397	5,392	4,012	4,767	4,878
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>1,18,667</b>	<b>1,27,447</b>	<b>1,34,286</b>
<b>Net current assets</b>	<b>47,799</b>	<b>30,963</b>	<b>34,200</b>	<b>29,798</b>	<b>25,132</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>6,54,992</b>	<b>6,69,269</b>	<b>6,60,958</b>	<b>6,71,059</b>	<b>7,01,899</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>54,296</b>	<b>65,861</b>	<b>79,336</b>
Other Non-Cash items	(3,356)	(5,869)	0	0	0
Chg in working cap	(6,957)	4,503	(4,617)	5,157	4,777
<b>Operating Cashflow</b>	<b>59,557</b>	<b>89,020</b>	<b>74,239</b>	<b>89,117</b>	<b>96,237</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>59,108</b>	<b>67,117</b>	<b>74,237</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>(4,959)</b>	<b>(31,218)</b>	<b>(52,571)</b>
Equity Capital Raised	52	27	0	0	0
Loans Taken / (Repaid)	(47,309)	(27,195)	(49,040)	(39,000)	(28,000)
Dividend paid (incl tax)	(3,462)	(3,800)	(4,529)	(4,703)	(4,877)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>(67,568)</b>	<b>(49,911)</b>	<b>(70,661)</b>	<b>(57,144)</b>	<b>(43,555)</b>
<b>Net chg in cash</b>	<b>3,125</b>	<b>(2,985)</b>	<b>(1,380)</b>	<b>755</b>	<b>111</b>
Opening cash position	772	8,339	5,392	4,012	4,767
<b>Closing cash position</b>	<b>7,397</b>	<b>5,392</b>	<b>4,012</b>	<b>4,767</b>	<b>4,878</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	23.1	22.2	22.6
EBIT Margin	11.8	15.6	16.9	16.5	17.2
Effective Tax Rate	29.8	21.7	29.8	29.8	29.8
Net Margin	6.0	9.7	10.7	11.2	12.2
ROCE	9.4	10.9	12.3	13.5	14.8
ROE	8.4	11.3	11.0	11.8	12.5
RoIC	9.5	10.9	12.1	13.7	15.8

<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	156.8	186.4	220.8
CEPS	180.8	235.8	249.2	281.7	319.5
BVPS	1,229.3	1,355.5	1,496.6	1,666.7	1,870.6
DPS	10.5	10.9	12.5	13.0	13.5

<b>Valuations (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
PER	50.6	32.6	29.5	24.8	21.0
P/CEPS	25.6	19.6	18.6	16.4	14.5
P/BV	3.8	3.4	3.1	2.8	2.5
EV / Sales	3.6	3.6	3.5	2.9	2.6
EV / EBITDA	20.4	16.3	15.0	13.2	11.3
Dividend Yield (%)	0.2	0.2	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	0.0
Net Debt/EBIDTA	3.1	2.0	1.4	0.7	0.0
Working Cap Cycle (days)	35.4	22.2	26.0	19.0	14.1

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Revenue	34.3	1.2	0.6	13.5	9.0
EBITDA	19.6	26.4	5.6	8.9	11.0
EBIT	13.9	34.4	8.5	11.1	13.5
PAT	7.9	142.2	(22.1)	18.9	18.4

<b>Quarterly (Rs mn)</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>
Revenue	96,205	1,03,538	1,07,447	76,338	1,03,542
EBITDA	19,181	19,730	24,053	20,746	26,949
<b>EBITDA Margin (%)</b>	<b>19.9</b>	<b>19.1</b>	<b>22.4</b>	<b>27.2</b>	<b>26.0</b>
PAT	5,788	5,779	32,408	7,965	8,987
<b>EPS (Rs)</b>	<b>21.1</b>	<b>21.0</b>	<b>118.0</b>	<b>27.6</b>	<b>31.1</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Oct-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>
Promoters	61.1	60.2	59.7	60.0	59.9
FII	17.5	17.6	16.5	16.1	15.3
DII	12.1	13.0	14.2	14.6	15.4
Public and Others	9.2	9.2	9.7	9.3	9.4

Source: Capitaline

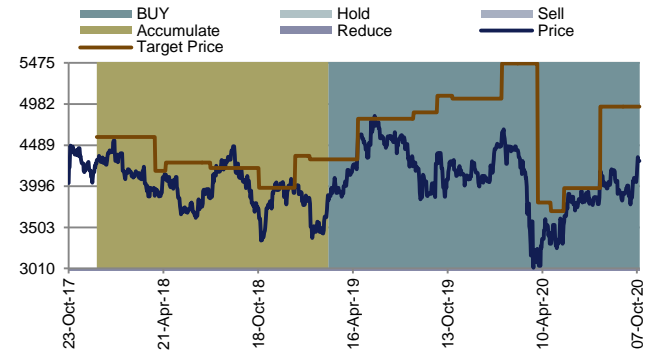


## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Jul-20	4,181	4,949	12m	Buy	Sanjeev Kumar Singh
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

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Cement & Building Materials



### Analyst: Sanjeev Kumar Singh

#### Contact Details

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#### 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>2.22</b>	<b>2.22</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
ACC	0.20	0.22	10%	2	10.09
Ambuja Cements	0.28	0.32	13%	4	14.38
Grasim Industries	0.47	0.14	-69%	-32	6.49
Birla Corporation	0.00	0.07	NA	7	3.31
India Cements	0.00	0.00	NA	0	0.00
JK Cement	0.00	0.05	NA	5	2.40
JK Lakshmi Cement	0.00	0.04	NA	4	1.95
Orient Cement	0.00	0.00	NA	0	0.00
Prism Johnson	0.00	0.00	NA	0	0.00
Ramco Cements	0.15	0.15	-1%	0	6.77
Shree Cements	0.31	0.31	-2%	-1	13.93
Star Cement	0.00	0.00	NA	0	0.00
Ultratech Cement	0.80	0.90	13%	10	40.67
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

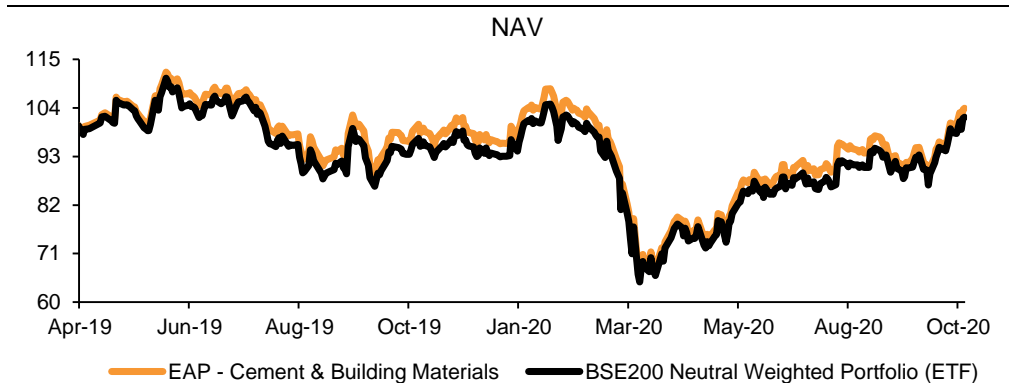
### Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Jan-20	20-Apr-20	20-Jul-20	18-Sep-20	19-Oct-20
EAP - Cement & Building Materials	100.0	103.8	78.5	90.4	95.1	104.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	100.6	76.8	87.4	93.3	101.9

\*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): [Nifty](#)

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

“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.
<b>BUY</b>	Over 15%
<b>HOLD</b>	Between -5% to 15%
<b>SELL</b>	Below -5%

Completed Date: 22 Oct 2020 00:58:21 (SGT)

Dissemination Date: 22 Oct 2020 00:59:21 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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