

# Ultratech Cement (UTCEM IN)

Rating: BUY | CMP: Rs4,629 | TP: Rs5,400

October 22, 2020

## Q2FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	<b>BUY</b>		<b>BUY</b>	
<b>Target Price</b>	<b>5,400</b>		<b>4,950</b>	
Sales (Rs. m)	4,60,328	5,00,862	4,52,876	4,92,516
% Chng.	1.6	1.7		
EBITDA (Rs. m)	1,05,876	1,18,598	98,243	1,08,924
% Chng.	7.8	8.9		
EPS (Rs.)	194.7	238.8	173.6	211.8
% Chng.	12.2	12.8		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	415	425	460	501
EBITDA (Rs. bn)	88	101	106	119
Margin (%)	21.1	23.6	23.0	23.7
PAT (Rs. bn)	37	49	56	69
EPS (Rs.)	128.5	170.0	194.7	238.8
Gr. (%)	47.1	32.2	14.6	22.7
DPS (Rs.)	13.0	11.5	11.5	11.5
Yield (%)	0.3	0.2	0.2	0.2
RoE (%)	10.2	11.9	12.1	13.2
RoCE (%)	10.0	11.7	12.2	13.7
EV/Sales (x)	3.7	3.4	3.0	2.6
EV/EBITDA (x)	17.3	14.3	13.1	11.0
PE (x)	36.0	27.2	23.8	19.4
P/BV (x)	3.4	3.1	2.7	2.4

### Key Data

ULTC.BO | UTCEM IN

52-W High / Low	Rs.4,754 / Rs.2,910
Sensex / Nifty	40,707 / 11,938
Market Cap	Rs.1,336bn/ \$ 18,157m
Shares Outstanding	289m
3M Avg. Daily Value	Rs.4943.14m

### Shareholding Pattern (%)

Promoter's	59.91
Foreign	15.30
Domestic Institution	15.38
Public & Others	9.41
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	19.3	36.0	7.8
Relative	11.5	2.4	4.0

**Kamlesh Bagmar**

kamleshbagmar@plindia.com | 91-22-66322237

**Amit Khimesra**

amitkhimesra@plindia.com | 91-22-66322244

## Best play with perfect blend of size, growth and efficiency

### Quick Pointers:

- Witnessed strong growth across regions except Maharashtra and South. Volumes started picking up in South and Maharashtra in September
- Impact of hardening pet coke prices would be limited to 10% increase in overall energy cost due to migration to cheaper fuels

**UTCEM reported strong Q2FY21 earnings with 25%/16% beat on consensus/our EBITDA estimates. EBITDA/t expanded 30% YoY at Rs1,330 (PLe:Rs1,155), on the back of 7% (v/s PLe: 4.3%) YoY reduction in cost and flat (v/s PLe:1% fall) YoY realisations. We upgrade our EBITDA estimates by 5%/8% for FY21e/FY22e to factor in lower costs.**

**UTCEM has swiftly transitioned in to strong state of operations with the successful integration of acquired assets of Century cement, JP associate's cement plants and Binani cement. Backed by sound B/S (Net debt/EBITDA at 1.2x) and steady cash flows, UTCEM embarks on next round of growth with 9mtpa of new capacities scheduled for commissioning in next couple of years along with sizeable investment in high payback and environment friendly renewable power (WHR) to increase its share to 30% from current 12% of overall power requirement. Led by its dominant size (23% market share) and highly efficient operations, we believe that UTCEM stands out as the best candidate to play recovery in the sector. We reiterate BUY with revised TP of Rs5,400 (earlier Rs4,950), EV/EBITDA of 15x FY22e.**

- Lower costs led the beat in earnings:** Volumes rose 8% YoY at 19.2mnt, in line with our estimate of 19.0mnt. Blended realisations increased 1.5% QoQ (+0.3% YoY) at Rs5,150 (PLe:Rs5,105) due to higher RMC and white cement revenues. Cement realisations fell 4.5% QoQ/2% YoY at Rs4,780/t, in line with our estimate of Rs4,790/t. Cost fell 7% YoY at Rs3,885/t, significantly better than our expectation of Rs4,015. The beat was primarily due to lower energy and fixed overheads. EBITDA grew 45% YoY at Rs25.5bn (PLe:Rs22.0bn). Aided by 30% fall in interest cost, PAT grew 90% YoY at Rs12.1bn, above our/consensus estimate of Rs9.9bn/Rs8.3bn.
- Key con-call highlights:** 1) East and Central regions running at full capacity 2) North market (Except NCR) started picking up due to Govt spending on Infra projects 3) Southern region looks promising with good demand from irrigation projects in AP-Telangana 4) 50% of rural districts shown growth due to lesser impact of COVID 5) Cement prices started hardening due to seasonal pick-up 6) Achieved 90% of guidance of Rs5bn towards fixed overheads reduction in H1 itself 7) Grinding units with capacity of 2mtpa/0.6mtpa/0.6mtpa/2.2mtpa at UP/West Bengal/Bihar/Odisha will be commissioned by Q4FY21/Q2FY22/Q3FY22/Q4FY22 8) 2.3mtpa clinker plant at Super Dalla (UP) would be commissioned by Q4FY22 9) Work on 3.5mtpa greenfield plant at Rajasthan would start in next year with commissioning scheduled in Q3FY23 10) Net Debt fell 17%/Rs25bn QoQ (↓41%/Rs85bn YoY) at Rs121.3bn with net debt/EBITDA at 1.22x 11) Net debt/EBITDA to come down to 1.0x by Q4FY21

**Exhibit 1: Q2FY21 Result Overview (Rs mn)**

Y/e March (Rs mn)	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
<b>Net Sales</b>	<b>98,950</b>	<b>91,290</b>	<b>8.4</b>	<b>72,900</b>	<b>1,71,850</b>	<b>1,99,800</b>	<b>(14.0)</b>
Raw Material	17,884	16,018	11.6	12,906	30,790	33,068	(6.9)
<i>% of Net Sales</i>	<i>18.1</i>	<i>17.5</i>		<i>17.7</i>	<i>17.9</i>	<i>16.6</i>	
Staff Costs	5,223	5,929	(11.9)	5,176	10,398	11,472	(9.4)
<i>% of Net Sales</i>	<i>5.3</i>	<i>6.5</i>		<i>7.1</i>	<i>6.1</i>	<i>5.7</i>	
Power & Fuel	16,810	17,939	(6.3)	12,349	29,158	39,282	(25.8)
<i>% of Net Sales</i>	<i>17.0</i>	<i>19.7</i>		<i>16.9</i>	<i>17.0</i>	<i>19.7</i>	
Freight	22,764	21,235	7.2	15,905	38,669	46,933	(17.6)
<i>% of Net Sales</i>	<i>23.0</i>	<i>23.3</i>		<i>21.8</i>	<i>22.5</i>	<i>23.5</i>	
Other Expenses	11,978	13,453	(11.0)	7,850	19,828	26,279	(24.5)
<i>% of Net Sales</i>	<i>12.1</i>	<i>14.7</i>		<i>10.8</i>	<i>11.5</i>	<i>13.2</i>	
Total Expenditure	74,659	74,574	0.1	54,185	1,28,843	1,57,034	(18.0)
<b>EBITDA</b>	<b>24,291</b>	<b>16,716</b>	<b>45.3</b>	<b>18,715</b>	<b>43,007</b>	<b>42,766</b>	<b>0.6</b>
<i>Margin (%)</i>	<i>24.5</i>	<i>18.3</i>		<i>25.7</i>	<i>25.0</i>	<i>21.4</i>	
Depreciation	6,127	6,063	1.1	5,887	12,013	12,323	(2.5)
Other income	2,700	3,230	(16.4)	3,797	6,498	6,661	(2.5)
<b>EBIT</b>	<b>20,865</b>	<b>13,883</b>	<b>50.3</b>	<b>16,626</b>	<b>37,492</b>	<b>37,104</b>	<b>1.0</b>
Interest	3,019	4,372	(30.9)	3,334	6,354	8,693	(26.9)
<b>PBT</b>	<b>17,846</b>	<b>9,511</b>	<b>87.6</b>	<b>13,292</b>	<b>31,138</b>	<b>28,411</b>	<b>9.6</b>
Extraordinary income/(expense)	(66)	-		(1,574)	(1,640)	-	
<b>PBT (After EO)</b>	<b>17,780</b>	<b>9,511</b>	<b>86.9</b>	<b>11,718</b>	<b>29,498</b>	<b>28,411</b>	<b>3.8</b>
Tax	5,693	3,119	82.5	3,663	9,355	9,351	0.1
<i>% PBT</i>	<i>32.0</i>	<i>32.8</i>		<i>31.3</i>	<i>31.7</i>	<i>32.9</i>	
<b>Reported PAT</b>	<b>12,087</b>	<b>6,392</b>	<b>89.1</b>	<b>8,056</b>	<b>20,142</b>	<b>19,061</b>	<b>5.7</b>
<b>Adjusted PAT</b>	<b>12,132</b>	<b>6,392</b>	<b>89.8</b>	<b>9,138</b>	<b>21,269</b>	<b>19,061</b>	<b>11.6</b>

Source: Company, PL

**Exhibit 2: Operating Metrics**

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Volume (mn t)	19.2	17.8	8.1	13.9	33.2	38.3	(13.4)
Net Blended Realisations (Rs/t)	5,151	5,137	0.3	5,230	5,184	5,222	(0.7)
EBITDA/t (Rs/t)	1,265	941	34.4	1,343	1,297	1,118	16.1

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>4,14,759</b>	<b>4,25,038</b>	<b>4,60,328</b>	<b>5,00,862</b>
YoY gr. (%)	1.4	2.5	8.3	8.8
Cost of Goods Sold	63,131	66,296	71,744	77,294
Gross Profit	3,51,628	3,58,741	3,88,584	4,23,569
Margin (%)	84.8	84.4	84.4	84.6
Employee Cost	25,094	24,558	26,384	28,229
Other Expenses	37,721	34,963	37,821	40,841
<b>EBITDA</b>	<b>87,653</b>	<b>1,00,507</b>	<b>1,05,876</b>	<b>1,18,598</b>
YoY gr. (%)	32.0	14.7	5.3	12.0
Margin (%)	21.1	23.6	23.0	23.7
Depreciation and Amortization	27,022	27,332	28,014	28,789
<b>EBIT</b>	<b>60,632</b>	<b>73,175</b>	<b>77,863</b>	<b>89,809</b>
Margin (%)	14.6	17.2	16.9	17.9
Net Interest	19,857	16,048	13,236	9,861
Other Income	12,967	15,386	16,307	19,091
<b>Profit Before Tax</b>	<b>52,435</b>	<b>70,873</b>	<b>80,934</b>	<b>99,039</b>
Margin (%)	12.6	16.7	17.6	19.8
Total Tax	(5,682)	21,706	24,621	29,990
Effective tax rate (%)	(10.8)	30.6	30.4	30.3
<b>Profit after tax</b>	<b>58,117</b>	<b>49,167</b>	<b>56,313</b>	<b>69,049</b>
Minority interest	(44)	110	110	110
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>37,099</b>	<b>49,057</b>	<b>56,203</b>	<b>68,939</b>
YoY gr. (%)	54.6	32.2	14.6	22.7
Margin (%)	8.9	11.5	12.2	13.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>58,161</b>	<b>49,057</b>	<b>56,203</b>	<b>68,939</b>
YoY gr. (%)	142.0	(15.7)	14.6	22.7
Margin (%)	14.0	11.5	12.2	13.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	58,161	49,057	56,203	68,939
<b>Equity Shares O/s (m)</b>	<b>289</b>	<b>289</b>	<b>289</b>	<b>289</b>
<b>EPS (Rs)</b>	<b>128.5</b>	<b>170.0</b>	<b>194.7</b>	<b>238.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,99,345</b>	<b>6,11,345</b>	<b>6,30,345</b>	<b>6,46,445</b>
Tangibles	5,99,345	6,11,345	6,30,345	6,46,445
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>92,046</b>	<b>1,19,378</b>	<b>1,47,392</b>	<b>1,76,181</b>
Tangibles	92,046	1,19,378	1,47,392	1,76,181
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>5,07,299</b>	<b>4,91,967</b>	<b>4,82,953</b>	<b>4,70,264</b>
Tangibles	5,07,299	4,91,967	4,82,953	4,70,264
Intangibles	-	-	-	-
Capital Work In Progress	27,935	27,935	33,485	42,735
Goodwill	62,525	62,525	62,525	62,525
Non-Current Investments	33,164	33,164	33,164	33,164
Net Deferred tax assets	(49,060)	(58,153)	(68,465)	(81,025)
Other Non-Current Assets	12,316	12,316	12,791	13,290
<b>Current Assets</b>				
Investments	42,437	42,437	42,437	42,437
Inventories	41,483	40,757	44,141	48,028
Trade receivables	22,383	25,619	31,529	34,306
Cash & Bank Balance	5,392	50,816	63,937	97,552
Other Current Assets	15,034	14,432	15,245	16,146
<b>Total Assets</b>	<b>7,93,371</b>	<b>8,18,415</b>	<b>8,39,213</b>	<b>8,78,040</b>
<b>Equity</b>				
Equity Share Capital	2,886	2,886	2,886	2,886
Other Equity	3,88,269	4,33,574	4,86,457	5,52,077
<b>Total Network</b>	<b>3,91,155</b>	<b>4,36,460</b>	<b>4,89,344</b>	<b>5,54,964</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	2,28,979	1,98,979	1,53,979	1,08,979
Provisions	2,417	2,417	2,417	2,417
Other non current liabilities	4,953	4,953	4,953	4,953
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	35,014	34,935	35,313	38,422
Other current liabilities	71,099	71,715	73,829	76,257
<b>Total Equity &amp; Liabilities</b>	<b>7,93,371</b>	<b>8,18,415</b>	<b>8,39,213</b>	<b>8,78,040</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	52,423	70,873	80,934	99,039
Add. Depreciation	27,022	27,332	28,014	28,789
Add. Interest	19,857	16,048	13,236	9,861
Less Financial Other Income	12,967	15,386	16,307	19,091
Add. Other	(5,869)	(9,409)	(9,863)	(12,146)
Op. profit before WC changes	93,432	1,04,845	1,12,320	1,25,543
Net Changes-WC	4,503	(1,416)	(8,649)	(3,113)
Direct tax	(8,914)	(12,613)	(14,308)	(17,431)
<b>Net cash from Op. activities</b>	<b>89,020</b>	<b>90,815</b>	<b>89,363</b>	<b>1,05,000</b>
Capital expenditures	(16,272)	(5,000)	(24,550)	(25,350)
Interest / Dividend Income	-	-	-	-
Others	(25,822)	9,409	9,863	12,146
<b>Net Cash from Invst. activities</b>	<b>(42,094)</b>	<b>4,409</b>	<b>(14,687)</b>	<b>(13,204)</b>
Issue of share cap. / premium	(3)	-	-	-
Debt changes	(27,164)	(30,000)	(45,000)	(45,000)
Dividend paid	(3,800)	(3,752)	(3,319)	(3,319)
Interest paid	(18,944)	(16,048)	(13,236)	(9,861)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(49,911)</b>	<b>(49,801)</b>	<b>(61,555)</b>	<b>(58,180)</b>
<b>Net change in cash</b>	<b>(2,985)</b>	<b>45,423</b>	<b>13,121</b>	<b>33,615</b>
Free Cash Flow	72,748	85,815	64,813	79,650

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>98,160</b>	<b>1,02,370</b>	<b>72,900</b>	<b>98,950</b>
YoY gr. (%)	0.4	(13.0)	(32.8)	8.4
Raw Material Expenses	19,247	16,307	12,906	17,884
Gross Profit	78,913	86,063	59,994	81,067
Margin (%)	80.4	84.1	82.3	81.9
<b>EBITDA</b>	<b>17,535</b>	<b>21,373</b>	<b>18,715</b>	<b>24,291</b>
YoY gr. (%)	28.3	(3.0)	(28.2)	45.3
Margin (%)	17.9	20.9	25.7	24.5
Depreciation / Depletion	6,137	6,090	5,887	6,127
<b>EBIT</b>	<b>11,398</b>	<b>15,283</b>	<b>12,829</b>	<b>18,165</b>
Margin (%)	11.6	14.9	17.6	18.4
Net Interest	4,026	4,324	3,334	3,019
Other Income	3,298	3,463	3,797	2,700
<b>Profit before Tax</b>	<b>9,338</b>	<b>14,448</b>	<b>11,718</b>	<b>17,780</b>
Margin (%)	9.5	14.1	16.1	18.0
Total Tax	2,907	(14,615)	3,663	5,693
Effective tax rate (%)	31.1	(101.2)	31.3	32.0
<b>Profit after Tax</b>	<b>6,432</b>	<b>29,063</b>	<b>8,056</b>	<b>12,087</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>7,349</b>	<b>29,012</b>	<b>9,138</b>	<b>12,132</b>
YoY gr. (%)	69.8	174.6	(27.9)	89.8
Margin (%)	7.5	28.3	12.5	12.3
Extra Ord. Income / (Exp)	(918)	52	(1,082)	(45)
<b>Reported PAT</b>	<b>6,432</b>	<b>29,063</b>	<b>8,056</b>	<b>12,087</b>
YoY gr. (%)	48.6	175.0	(36.4)	89.1
Margin (%)	6.6	28.4	11.1	12.2
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>6,432</b>	<b>29,063</b>	<b>8,056</b>	<b>12,087</b>
Avg. Shares O/s (m)	289	289	289	289
<b>EPS (Rs)</b>	<b>25.5</b>	<b>100.5</b>	<b>31.7</b>	<b>42.0</b>

Source: Company Data, PL Research

### Key Financial Metrics

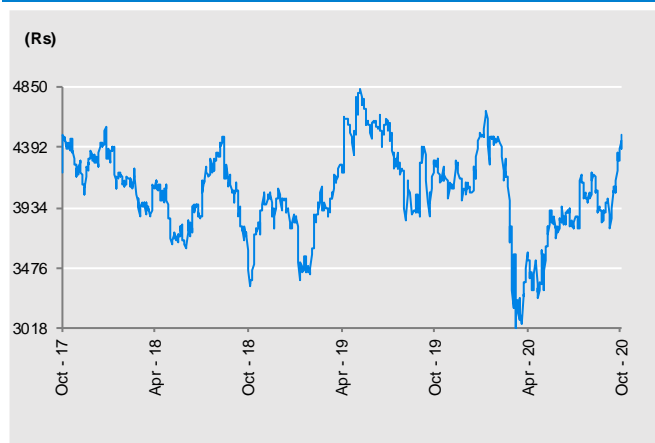
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	128.5	170.0	194.7	238.8
CEPS	222.2	264.7	291.8	338.6
BVPS	1,355.2	1,512.2	1,695.4	1,922.8
FCF	252.0	297.3	224.6	276.0
DPS	13.0	11.5	11.5	11.5
<b>Return Ratio(%)</b>				
RoCE	10.0	11.7	12.2	13.7
ROIC	12.1	9.5	10.2	12.2
RoE	10.2	11.9	12.1	13.2
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.2	0.1	(0.1)
Net Working Capital (Days)	25	27	32	32
<b>Valuation(x)</b>				
PER	36.0	27.2	23.8	19.4
P/B	3.4	3.1	2.7	2.4
P/CEPS	222.2	264.7	291.8	338.6
EV/EBITDA	17.3	14.3	13.1	11.0
EV/Sales	3.7	3.4	3.0	2.6
Dividend Yield (%)	0.3	0.2	0.2	0.2

Source: Company Data, PL Research

### Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total volume (mn te)	79	80	86	93
Blended Real. (Rs/te)	5,083	5,174	5,192	5,233
Blended EBITDA/tonne (Rs)	1,037	1,193	1,162	1,206
RM cost (Rs/ te)	871	943	954	955
Power, Oil & Fuel (Rs/ te)	978	907	920	907
Freight Chrgs. (Rs/ te)	1,223	1,236	1,258	1,271

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-20	BUY	4,950	4,136
2	21-Aug-20	BUY	5,021	4,144
3	29-Jul-20	BUY	4,675	4,136
4	09-Jul-20	BUY	4,300	3,787
5	16-Jun-20	BUY	4,375	3,745
6	21-May-20	BUY	4,350	3,546
7	09-Apr-20	BUY	4,350	3,256
8	25-Jan-20	BUY	5,110	4,643
9	03-Jan-20	BUY	4,675	4,219

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	255	225
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Accumulate	195	190
5	Hindalco Industries	BUY	218	174
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	195
8	JK Lakshmi Cement	BUY	350	263
9	JSW Steel	Reduce	185	293
10	NMDC	Accumulate	98	83
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	660	756
15	Ultratech Cement	BUY	4,950	4,136

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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**Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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