

Demand momentum to remain strong...

Cement demand remained buoyant in Q3FY21 also with east region operating almost at 100% capacity utilisation. Rest all other regions barring south operated at over 80% leading to average capacity utilisation of 80% for the company in Q3. Better asset utilisations and use of low cost fuel inventory kept cost of production down 5% YoY on a per tonne basis that helped the company to achieve better margins. The full impact of higher petcoke prices would get reflected in numbers from Q1FY22 onwards. EBITDA/t for the quarter was at ₹ 1,290/t (vs. I-direct estimate of ₹ 1,155/t). PAT growth of 141% YoY to ₹ 1,550 crore is mainly attributable to improved sales volumes along with reduced costs. On the M&A front, the 14.6 MT cement plants acquired during the previous financial year have been well integrated and operating with capacity utilisations of over 80%. On the leverage front, the company has successfully reduced its net debt/EBITDA ratio to 0.73x from 1.74x last year and 1.1x last quarter. On the recent announcement of entering into paint business by promoter Grasim Industries, the company has clarified it will continue to focus on the cement business only. However, there could be a possibility of cross selling opportunities depending upon the situation.

Volumes recover sharply in Q3FY21; to gain further traction in FY22E

Construction and infrastructure activities are also picking-up of late. While we expect rural demand in FY21E to drive recovery on the back of normal monsoon and pick-up in individual housing building (IHB), FY22E would witness sharp pick-up in infra activity as well. We expect UltraTech to report volume CAGR of 7.3% in FY20-23E. While prices have improved in FY20 (up 5.3% YoY) and stayed healthy during 9MFY21, we expect them to stabilise, going ahead, with a pick-up in volumes. We model realisation CAGR of 1.2% during FY20-23E to adjust for cost inflationary situation.

Efficiency measures to help sustain margins; B/S to stay firm

While there is risk of cost inflation with respect to sharp rise in petcoke, diesel prices, the management is focused on consolidating the acquired assets, driving synergies, especially on the logistics front and reducing fixed overhead by 10% on a sustainable basis providing a cushion against risk of margin erosion, going forward. On the leverage front, net debt is now reduced from ₹ 16,860 crore in March 2020 to ₹ 9,436 crore while net debt/EBITDA is at 0.73x vs. 1.74x last year.

Valuation & Outlook

UltraTech has showed its capability to successfully integrate the acquired assets and protect its B/S in tough time as well. Given the positive outlook, the newly announced capex targeting central and east region would address the issue of capacity constraint post FY24E. With a target to become net debt free by FY23E and 23% earnings CAGR in FY20-23E, we believe, Ultratech will remain a preferred play in the cement space. We maintain **BUY** rating with a revised TP of ₹ 6300/share (i.e. 13.5x FY23E EV/EBITDA).

Key Financial Summary (standalone)

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	39933	40634	41868	47953	52132	9%
EBITDA (₹ crore)	7076	8652	10534	11117	12695	14%
EBITDA (%)	17.7	21.3	25.2	23.2	24.4	
Adjusted PAT (₹ crore)	2530	3602	5206	5612	6758	23%
EPS (₹)	87.7	124.8	180.4	194.5	234.2	
EV/EBITDA	23.8	19.3	15.6	14.5	12.2	
EV/t (\$)	212	210	207	195	169	
RoNW (%)	7.6	9.4	12.1	11.7	12.4	
RoCE (%)	9.0	11.4	14.2	14.2	15.8	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Mcap	₹ 154963 crore
Debt (FY20)	₹ 18100 crore
Cash & Invest (FY20)	₹ 310 crore
EV	₹ 172753 crore
52 week H/L	₹ 4755/₹ 2910
Equity cap	₹ 288.2 crore
Face value	₹ 10

Key Highlights

- Volume grew 14.1% YoY led by strong demand from rural segment
- Ended Q3 with 80% utilisation. December 2021 utilisation at ~85%
- Share of green power increased to 13% vs. 11% last year. Target to increase its share further to 34%
- Maintain BUY with revised TP of ₹ 6300 from ₹ 6,150 earlier

Key risks to our call

- Focus on market share gain post commissioning of new capacities at cost of prices may impact return ratios
- Sharp increase in other input costs like fuel, power may possess risk for margin expansion, going ahead

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Net Sales	11,831	11,097	9,982	18.5	10,019	18.1	Strong demand from North and East regions led to volume growth with strong uptake in institutional demand with capacity utilisation of over 80%
Other Incomes	262	130	164	59.5	146	78.6	
Raw Material Expenses	1,909	2,052	1,925	-0.8	1,789	6.7	
Employee Expenses	567	519	577	-1.7	522	8.5	
Power and fuel	2,180	2,033	1,841	18.4	1,681	29.7	Consumption of low cost petcoke inventory at \$75/tonne along with higher usage of greenpower (share increase from 11% LY to 13%) led to marginal increase in power cost despite sharp increase in prices
Freight	2,816	2,606	2,340	20.4	2,276	23.7	Higher diesel prices (up 10% YoY) led to rise of 5.5% in freight costs on per tonne basis
Others	1,414	1,379	1,513	-6.6	1,198	18.0	Fixed cost reduction of 18% YoY led to fall in other costs
EBITDA	2,944	2,509	1,786	64.9	2,552	15.4	
EBITDA Margin (%)	24.9	22.6	17.9	700 bps	25.5	-59 bps	
Depreciation	602	613	614	-1.9	613	-1.7	
Interest	301	347	403	-25.3	302	-0.4	
PBT	2,303	1,679	934	146.6	1,777	29.6	
Total Tax	753	537	291	159.0	569	32.4	
PAT	1,550	1,142	643	141.0	1,209	28.3	

Key Metrics

Volume (MT)	22.8	21.7	20.0	14.1	19.2	18.8
Realisation (₹)	5,184	5,111	4,991	3.9	5,215	-0.6
EBITDA per Tonne (₹)	1,290	1,155	893	44.5	1,329	-2.9

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	40,887.1	41,868.5	2.4	45,443.1	47,952.9	5.5	Volume growth to remain healthy in FY22E
EBITDA	10,290.8	10,533.6	2.4	11,393.2	11,117.0	-2.4	Impact of higher petcoke price to get visible from FY22E
EBITDA Margin (%)	25.2	25.2	-1 bps	25.1	23.2	-189 bps	
PAT	4,957.9	5,206.0	5.0	5,877.3	5,612.3	-4.5	
EPS (₹)	171.8	180.4	5.0	203.7	194.5	-4.5	

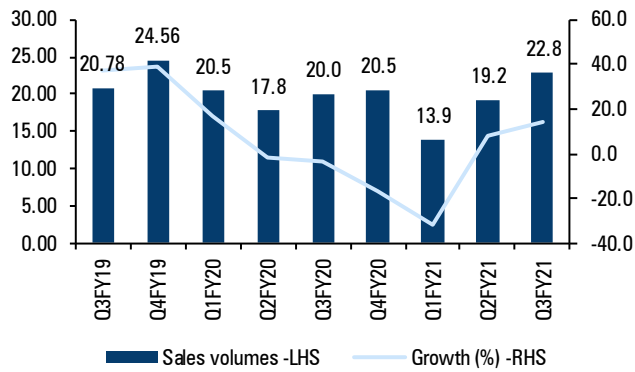
Source: Company, ICICI Direct Research

Exhibit 3: Key Assumptions

	Current					Earlier		
	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E
Volume (MT)	59.1	80.9	78.2	80.1	90.2	96.6	77.7	85.0
Realisation (₹)	4,998	4,937	5,199	5,230	5,314	5,394	5,263	5,345
EBITDA per Tonne (₹)	986	875	1,107	1,316	1,232	1,314	1,325	1,340

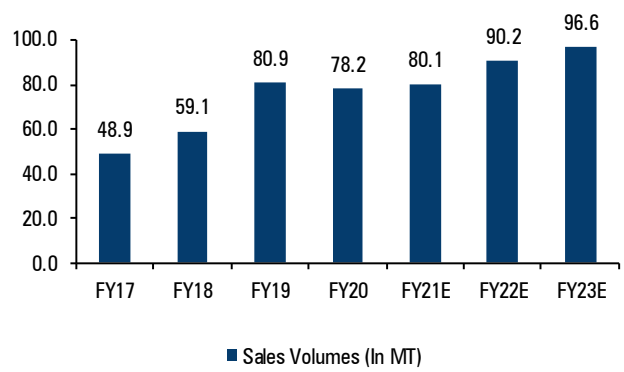
Source: Company, ICICI Direct Research

Exhibit 4: Sales volumes up by 14.1% YoY during Q3FY21



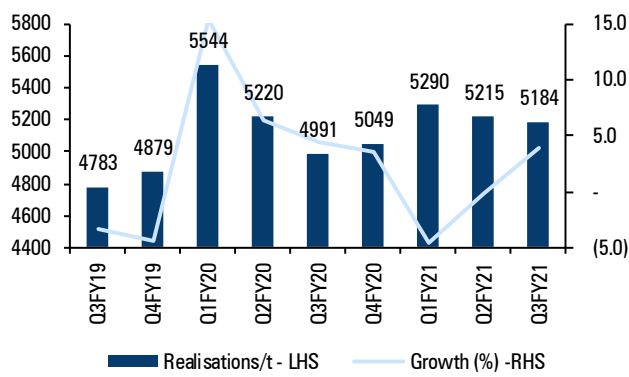
Source: Company, ICICI Direct Research

Exhibit 5: Volumes expected to reach ~97 MT by FY23E



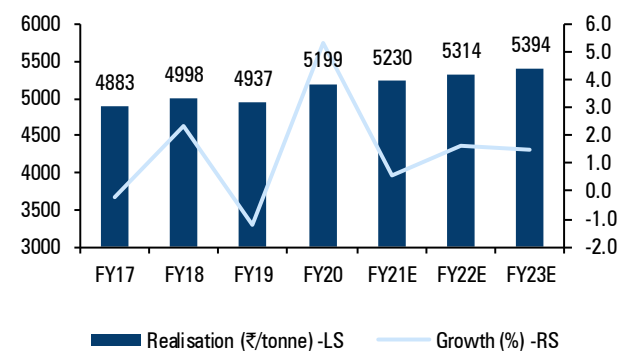
Source: Company, ICICI Direct Research

Exhibit 6: Realisations improve 3.9% YoY, remain flat QoQ



Source: Company, ICICI Direct Research

Exhibit 7: Realisation growth to moderate with volume pick-up



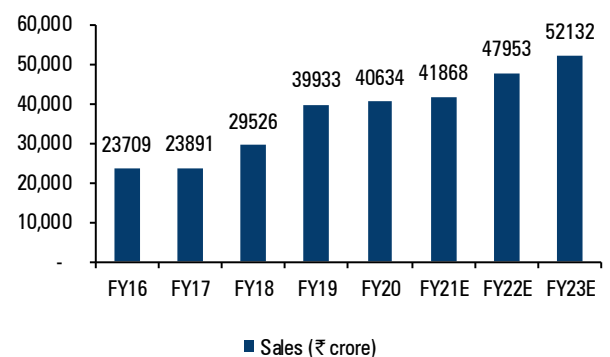
Source: Company, ICICI Direct Research

Exhibit 8: Domestic capacity to reach ~131 MT by FY23E

Zone (in mt)	Capacity	Capacity additions	Total
North	23.8	5.2	29.0
Central	23.3	4.2	27.5
East	16.1	10.1	26.2
West	27.7		27.7
South	20.5		20.5
Domestic Total	111.4	19.5	130.9
Overseas	3.4		3.4
Total	114.8		134.3

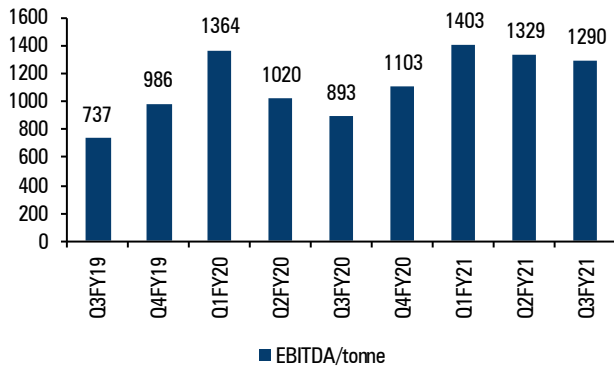
Source: Company, ICICI Direct Research

Exhibit 9: Standalone revenues to grow at 8.7% CAGR in FY20-23E



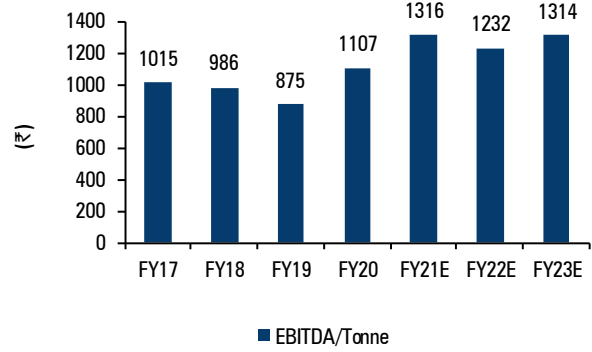
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA/t increases YoY led by better pricing and cost control initiatives



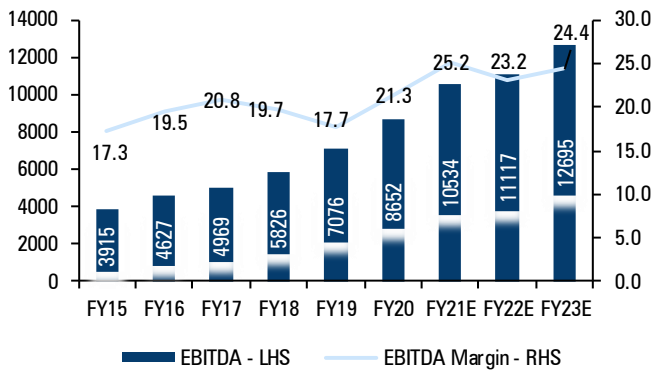
Source: Company, ICICI Direct Research

Exhibit 11: EBITDA/t to moderate marginally, going forward



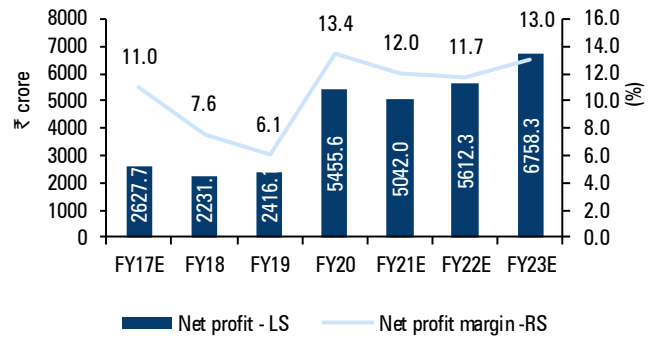
Source: Company, ICICI Direct Research

Exhibit 12: EBITDA growth to trend



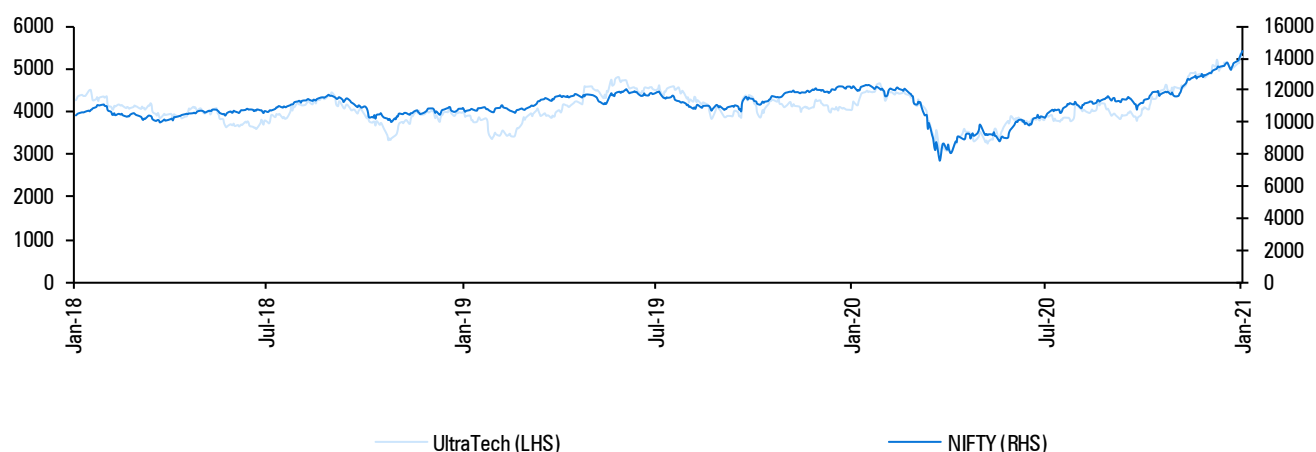
Source: Company, ICICI Direct Research

Exhibit 13: PAT margin to scale back to over 13% by FY23E led by healthy realisations, efficiency measures



Source: Company, ICICI Direct Research

Exhibit 14: Three year price performance vs. Nifty



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 15: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S Position (m)		Change
1	Grasim Industries Ltd	12/31/2019	57.3	165.3	0.0
2	Life Insurance Corp	6/30/2019	3.9	11.2	0.0
3	Franklin Resources	5/15/2020	1.4	4.1	0.0
4	Kotak Mahindra Asset	4/30/2020	1.4	4.0	0.3
5	SBI Funds Management	4/30/2020	1.4	3.9	0.0
6	Pilani Investment & co	2/20/2020	1.4	3.9	0.0
7	Standard Life Aberde	4/30/2020	1.3	3.7	-0.7
8	Vanguard Group	4/30/2020	1.0	2.9	0.0
9	BlackRock	5/14/2020	1.0	2.9	0.0
10	ICICI Prudential	4/30/2020	1.0	2.8	-0.1

Source: Reuters, ICICI Direct Research

Exhibit 16: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	60.19	60.04	60.04	59.91	59.97
FII	17.60	16.48	16.10	15.30	16.80
DII	12.99	14.15	14.59	15.50	14.18
Others	9.22	9.33	9.27	9.29	9.05

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 17: Profit & Loss Account

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating income	40,634	41,868	47,953	52,132
Growth (%)	1.8	3.0	14.5	8.7
Raw material cost	6,907	7,060	8,618	9,229
Power & Fuel cost	7,703	7,481	9,733	10,437
Freight cost	9,570	9,679	10,287	11,017
Employees cost	2,336	2,201	2,333	2,473
Others	5,465	4,914	5,865	6,282
Total Operating Exp.	31,982	31,335	36,836	39,438
EBITDA	8,652	10,534	11,117	12,695
Growth (%)	22.3	21.7	5.5	14.2
Depreciation	2,455	2,473	2,559	2,926
Interest	1,704	1,283	1,224	774
Other Income	727	834	800	800
PBT	5,220	7,612	8,134	9,795
Total Tax	-236	2,405	2,521	3,036
PAT	5,456	5,206	5,612	6,758
Growth (%)	115.6	-4.6	7.8	20.4
Adj. EPS (₹)	125	180	194	234

Source: Company, ICICI Direct Research

Exhibit 19: Balance Sheet summary

(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	289	289	289	289
Reserve and Surplus	38,008	42,597	47,757	54,063
Total Shareholders funds	38,296	42,886	48,046	54,352
Total Debt	18,100	15,600	13,600	8,600
Deferred Tax Liability	4,077	4,077	4,077	4,077
Total Liabilities	60,473	62,563	65,723	67,029
Assets				
Gross Block	64,923	67,329	69,129	72,529
Less: Acc Depreciation	19,668	22,141	24,700	27,626
Net Block	45,255	45,188	44,429	44,903
Capital WIP	1,106	700	1,500	700
Total Fixed Assets	46,361	45,888	45,929	45,603
Investments	13,090	12,940	13,790	14,990
Inventory	3,834	5,113	5,134	5,721
Debtors	1,848	2,970	3,336	3,519
Loans and Advances	2,300	3,562	4,111	4,230
Other Current Assets	3,039	3,660	4,204	4,345
Cash	310	417	765	584
Total Current Assets	11,331	15,722	17,550	18,400
Creditors	3,250	3,632	3,725	3,988
Provisions	7,059	8,355	7,822	7,976
Total Current Liabilities	10,309	11,987	11,546	11,964
Net Current Assets	1,022	3,735	6,004	6,436
Others Assets	0	0	0	0
Application of Funds	60,473	62,563	65,723	67,029

Source: Company, ICICI Direct Research

Exhibit 18: Cash flow statement

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	5,456	5,042	5,612	6,758
Add: Depreciation	2,455	2,473	2,559	2,926
(Inc)/dec in Current Assets	-435	-4,284	-1,481	-1,030
Inc/(dec) in CL and Provisions	-815	1,678	-441	418
CF from operating activities	6,660	4,910	6,250	9,072
(Inc)/dec in Investments	-288	-350	-850	-1,200
(Inc)/dec in Fixed Assets	-1,100	-2,000	-2,600	-2,600
Others	-1,138	0	0	0
CF from investing activities	-2,526	-2,350	-3,450	-3,800
Issue/(Buy back) of Equity	14	0	0	0
Inc/(dec) in loan funds	-1,565	-2,500	-2,000	-5,000
Dividend paid & dividend tax	-452	-452	-452	-452
Inc/(dec) in Sec. premium	0	0	0	0
Others	16	0	0	0
CF from financing activities	-1,987	-2,952	-2,452	-5,452
Net Cash flow	-346	107	347	-180
Opening Cash	656	310	417	765
Closing Cash	310	417	765	584

Source: Company, ICICI Direct Research

Exhibit 20: Ratio sheet

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adj. EPS (₹)	124.8	180.4	194.5	234.2
Cash EPS	274.1	260.4	283.2	335.6
BV	1,327.1	1,486.1	1,664.9	1,883.5
DPS	13.0	13.0	13.0	0.0
Cash Per Share	10.7	14.5	26.5	20.2
Operating Ratios (%)				
EBITDA Margin	21.3	25.2	23.2	24.4
PBT / Total Operating income	12.8	17.8	17.0	18.8
PAT Margin	13.4	12.0	11.7	13.0
Inventory days	34.2	39.0	39.0	38.0
Debtor days	18.9	21.0	24.0	24.0
Creditor days	28.0	30.0	28.0	27.0
Return Ratios (%)				
RoE	9.4	12.1	11.7	12.4
RoCE	11.4	14.2	14.2	15.8
RoIC	11.6	14.6	15.2	17.0
Valuation Ratios (x)				
P/E	27.8	30.0	27.0	22.4
EV / EBITDA	18.9	15.2	14.1	11.9
EV / Net Sales	4.0	3.8	3.3	2.9
Market Cap / Sales	3.7	3.6	3.2	2.9
Price to Book Value	4.0	3.5	3.2	2.8
Solvency Ratios				
Debt/EBITDA	2.1	1.5	1.2	0.7
Debt / Equity	0.5	0.4	0.3	0.2
Current Ratio	1.1	1.3	1.5	1.5
Quick Ratio	1.1	1.3	1.5	1.5

Source: Company, ICICI Direct Research

Exhibit 21: ICICI Direct coverage universe (Cement)

Company	CMP		Rating	M Cap		EPS (₹)			EV/EBITDA (x)			EV/Tonne (\$)			RoCE (%)			RoE (%)		
	(₹)	TP (₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
ACC*	1,666	1,950	BUY	31,010	73	84	97	12.2	10.3	8.7	113	116	97	17.4	17.8	18.6	11.9	12.3	12.8	
Ambuja Cem*	257	280	HOLD	50,038	7.7	8.7	9.5	14.1	12.8	11.2	140	152	134	12.2	17.1	17.3	14.7	19.7	19.6	
UltraTech Cem	5,370	6,300	BUY	154,963	180	194	234	15.6	14.5	12.2	207	207	195	14.2	14.2	15.8	12.1	11.7	12.4	
Shree Cement	23,255	28,000	BUY	86,240	435	611	653	23.4	20.7	18.3	253	239	235	13.8	17.6	17.7	12.1	14.9	13.9	
Heidelberg Cem	221	265	BUY	5,212	11.8	10.2	14.6	10.4	11.6	8.7	139	123	117	22.3	20.3	27.5	20.4	19.0	24.0	
JK Cement	2,122	2,400	BUY	15,608	74.9	86.4	95.2	15.2	12.4	10.8	165	157	161	16.2	17.4	17.4	18.5	18.0	16.9	
JK Lakshmi Cen	326	450	BUY	4,025	22.6	26.3	28.4	7.4	6.6	5.7	61	59	59	17.1	18.2	20.1	15.5	15.1	15.4	
Star Cement	95	120	BUY	4,318	6.9	4.8	6.7	9.6	10.5	8.4	131	90	85	17.1	12.1	14.9	15.4	10.1	12.9	
Ramco Cement	787	1,000	BUY	20,713	25.7	36.4	37.4	20.7	14.3	13.2	182	175	170	7.5	9.9	10.1	12.3	15.0	13.4	
Sagar Cement	706	900	BUY	1,659	17.1	80.0	86.2	11.6	5.4	5.3	53	54	41	7.2	17.5	15.4	4.2	15.4	14.4	

Source: Company, ICICI Direct Research, *CY19, CY20E, CY21E

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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