Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 6,094**	
Price Target: **Rs. 8,000**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

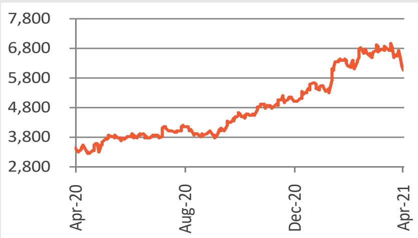
Company details

Market cap:	Rs. 175,891 cr
52-week high/low:	Rs. 7050/3235
NSE volume: (No of shares)	6.0 lakh
BSE code:	532538
NSE code:	ULTRACEMCO
Free float: (No of shares)	11.6 cr

Shareholding (%)

Promoters	60.0
FII	17.3
DII	13.9
Others	8.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.1	13.6	35.3	76.8
Relative to Sensex	-8.2	14.2	17.1	25.9

Sharekhan Research, Bloomberg

UltraTech Cement Limited

Sporadic lockdowns to unlock investment opportunity

Cement | Sharekhan code: ULTRACEMCO | Company Update

Stock Update

Summary

- We maintain a Buy on UltraTech Cement (UltraTech) with an unchanged PT of Rs. 8,000 as we envisage that the COVID-led impact on volumes would be short-lived; structural growth drivers for a bounceback are intact.
- Cement industry in general and Ultratech in particular are expected to see weak demand in April as key states have imposed a lockdown as COVID-19 cases rise.
- Cement price hikes in early April have withstood in the Southern and Eastern regions while there has been Rs. 10-20 per bag correction in a few micro-markets in North and West.
- The company's 19.5 mtpa expansion plan at a cost of Rs. 6,527 crore (without affecting de-leveraging plan) to ensure industry outperformance over the next 4-5 years.

The cement industry is expected to see weak demand in April as key states like Maharashtra, Uttar Pradesh and Delhi have announced lockdowns (barring a leeway for essentials) led by rising COVID-19 cases. As per sector note dated April 15, 2021, the industry had taken price hikes in the early part of April 2021 of 4.3% m-o-m (up 11.2% y-o-y) with Eastern and Southern regions seeing an 11.9% m-o-m and 5% m-o-m hikes. As per our recent channel checks, the prices in South and East have been more or less held up as states in these regions have not announced stringent lockdowns. However, there has been instances of Rs. 10-20 per bag reversal in cement prices in Northern and Western regions. Demand is expected to be weak in April 2021 as construction activities are halted in both trade and non-trade segments due to the imposition of lockdowns in key states. UltraTech Cement (UltraTech) being a sector leader is expected to be affected by weak demand in April. However, we believe the company in particular and the sector in general to witness pent-up demand as major states ease lockdown restrictions. India's vaccination drive has been the fastest till date with more than 13 crore people getting vaccinated in 95 days (versus US taking 101 days and China 109 days). Further, the infrastructure and real estate sector have been much better prepared this time with measures taken to retain labour at sites by providing food, shelter and medications. Hence, we expect the cement sector to see bounce back in demand as COVID-led restrictions ease with rising inoculation of the population during FY2022. Yet, as the situation is still evolving and the full impact of the COVID-led restrictions in various states cannot be fully ascertained as of now, on the industry's demand outlook for FY2022. Structural growth drivers for the industry remain intact in terms of government's focus on infrastructure investments (especially roads), affordable housing and improving residential real estate segment. UltraTech's 19.5 mtpa expansion plan at a cost of Rs. 6,527 crore (without affecting its current de-leveraging plan) would ensure its industry outperformance over the next 4-5 years. Hence, we continue to maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 8,000.

Our Call

Valuation –Maintain Buy with an unchanged PT of Rs. 8,000: We expect UltraTech to remain a key beneficiary as the COVID-led restrictions ease in India and the sector sees a rise in pent-up demand led by both government led infrastructure investment and residential markets. Ultratech has corrected by over 12% over the past fortnight on account of rising fears of lockdowns domestically amidst increasing COVID-19 cases. We believe that the sharp correction provides an opportunity to invest believing that the impact of sporadic lockdowns in the country to be a near-term phenomenon. As COVID-led restrictions are eased, we expect the demand to return to normalcy during FY2022 while structural growth drivers for the company's growth remains intact. The company is well poised to capture the growth opportunities that lie ahead with its ongoing capacity expansion plans. UltraTech is currently trading at 13.5x its EV/EBITDA on FY2023 earnings, which we believe provides room for upside. Hence, we continue to maintain our Buy rating on the stock with an unchanged PT of Rs. 8,000.

Key Risks

A weak macroeconomic environment would reduce cement demand and put pressure on cement prices that would negatively affect profitability.

Valuation (Standalone) Rs cr

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	40,649	41,131	46,484	52,492
OPM (%)	23.1%	26.1%	25.5%	25.7%
Adjusted PAT	3,652	4,687	5,413	6,449
% YoY growth	44.6%	28.3%	15.5%	19.1%
Adjusted EPS (Rs.)	126.5	162.4	187.5	223.4
P/E (x)	48.2	37.5	32.5	27.3
P/B (x)	4.6	4.1	3.7	3.3
EV/EBITDA (x)	21.2	18.2	16.0	13.5
RoNW (%)	10.2%	11.6%	12.0%	12.7%
RoCE (%)	8.8%	9.5%	10.2%	11.1%

Source: Company; Sharekhan estimates

COVID-led restrictions to affect demand in near term; expect a recovery with easing restrictions

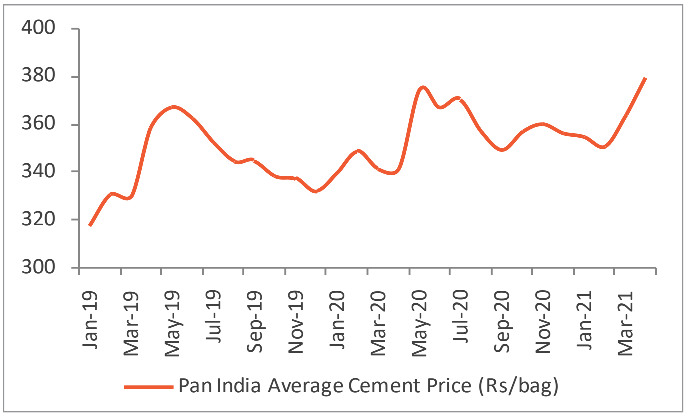
India is currently going through the second wave of COVID-19 infections, which has been affecting people at a higher pace this time around and has progressed into the hinterlands of the country. However, the central and state governments have been taking measures of increasing pace of vaccination and imposing various restrictions to curtail the damage. Jharkhand is the latest state to impose a lockdown till April 29. The Delhi government had imposed a weeklong lockdown in the national capital from 10 pm on April 19 till 5 am on April 26, 2021. Maharashtra announced complete curfew in Maharashtra from 8 pm on April 14, 2021 till 7 am on May 1, 2021. In UP, Allahabad High Court directed the Uttar Pradesh government to impose a one-week lockdown in Allahabad, Lucknow, Varanasi, Kanpur Nagar and Gorakhpur. While most other states have resorted to measures like night curfews and weekend lockdowns. Consequently, the demand environment is expected to be impacted during April 2021. However, the trade demand in Maharashtra is expected to get affected due to strict restrictions on movement of people. Overall, we believe as of now, that COVID restrictions can affect the trade demand of the country at least for half of April while non-trade demand is expected to have minimal impact. However, we believe that UltraTech in particular and the sector in general would witness pent-up demand as major states ease lockdown restrictions. India's vaccination drive has been the fastest till date with more than 13 crore people getting vaccinated over 95 days (as compared to the US taking 101 days and China 109 days). Further, the infrastructure and real estate sectors have been much better prepared this time with measures taken to retain labour at sites by providing food, shelter and medications. Hence, we expect the cement sector to see bounce back in demand as COVID-led restrictions ease with rising inoculation of the population during FY2022.

Cement prices in South and East hold ground

As per our channel checks, average pan-India cement prices have risen 4.3% m-o-m (up 11.2% y-o-y) in April 2021. During the month, cement prices in the Eastern region reported the sharpest hike of 11.9% m-o-m (up 20.2% y-o-y) followed by Southern region, where prices were up 5% m-o-m (up 18.8% y-o-y). The average cement prices in the west were up 3.9% m-o-m (up 7.9% y-o-y) and central regions were up by 2.1% m-o-m (up 6.1% y-o-y). The prices marginally remained under pressure in north, down by 0.7% m-o-m (although are up 3.8% y-o-y). As per our recent channel checks, the prices in South and East have been more of less holding up as the regional states have not announced stringent lockdowns. However, there has been instances of a reversal of Rs. 10-20 per bag in cement prices in Northern and Western regions.

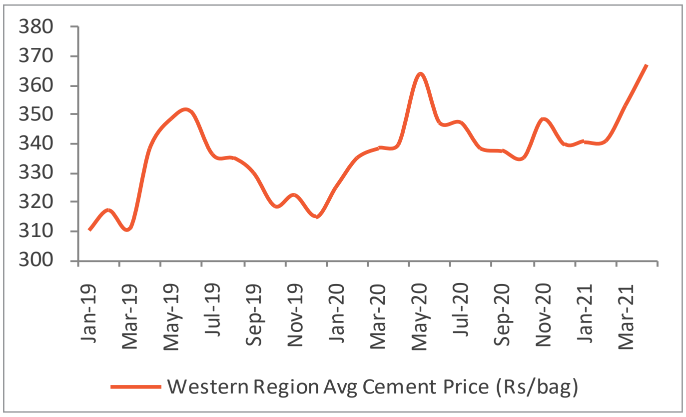
Cement prices in charts

Pan-India price 11.2%/4.3% (Apr'21 vs. y-o-y/m-o-m)



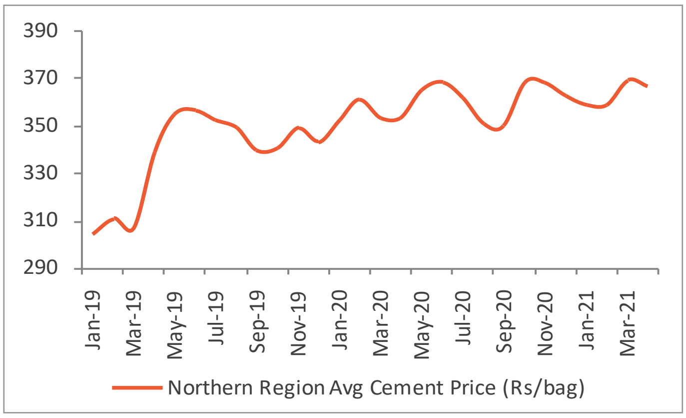
Source: Industry; Sharekhan Research

West price 7.9%/3.9% (Apr'21 vs. y-o-y/m-o-m)



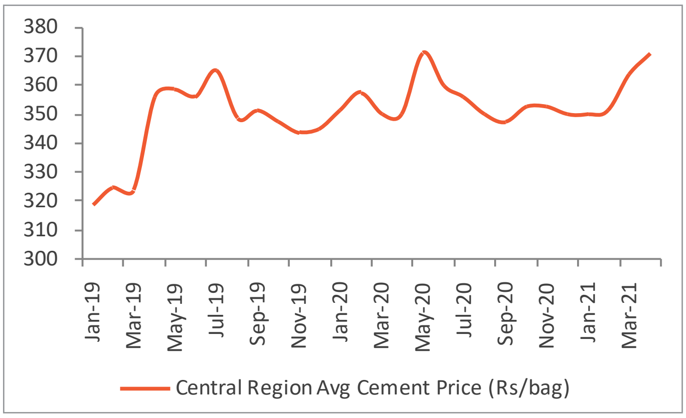
Source: Industry; Sharekhan Research

North price 3.8%/-0.7%(Apr'21 vs. y-o-y/m-o-m)



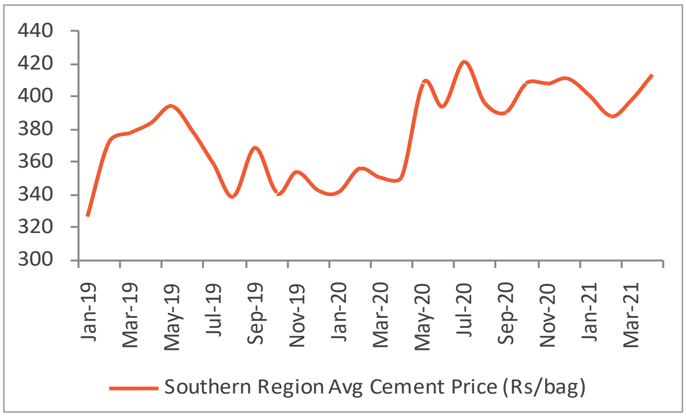
Source: Industry; Sharekhan Research

Central price 6.1%/2.1% (Apr'21 vs. y-o-y/m-o-m)



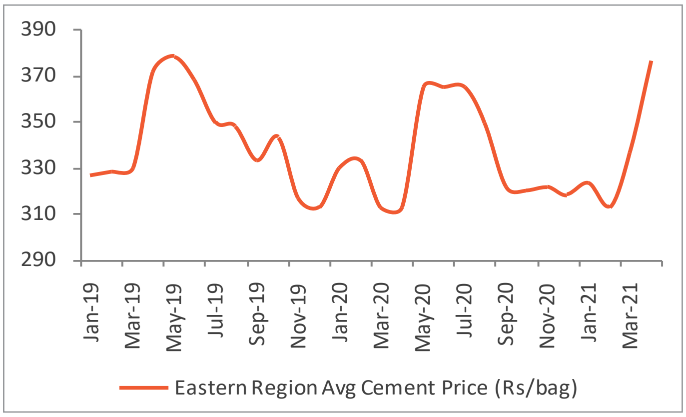
Source: Industry; Sharekhan Research

South price 18.8%/5.0% (Apr'21 vs. y-o-y/m-o-m)



Source: Industry; Sharekhan Research

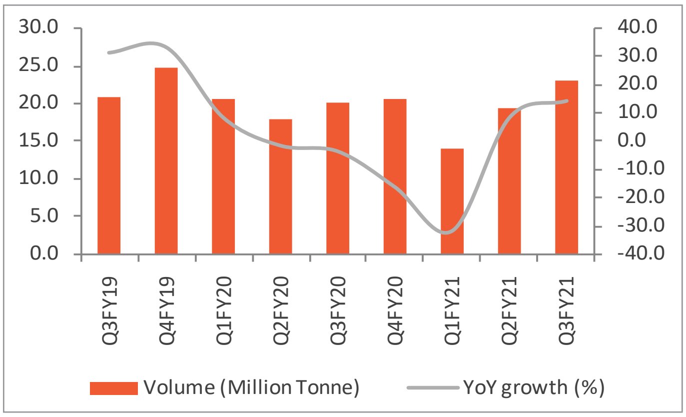
East price 20.2%/11.9% (Apr'21 vs. y-o-y/m-o-m)



Source: Industry; Sharekhan Research

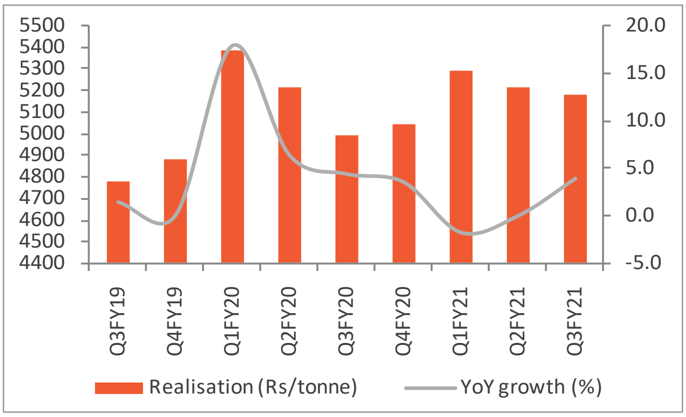
Financials in charts

Volume trend



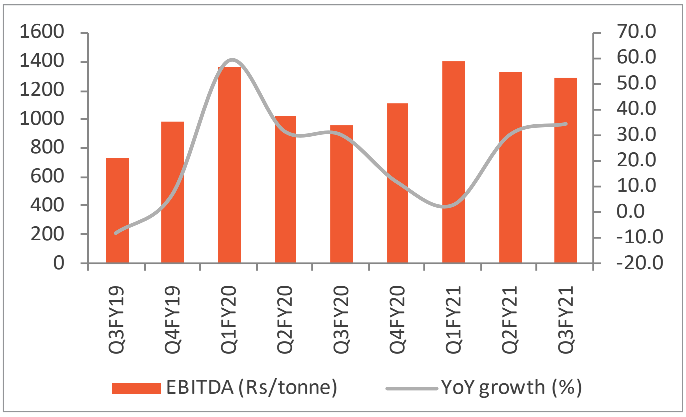
Source: Company, Sharekhan Research

Realisation trend



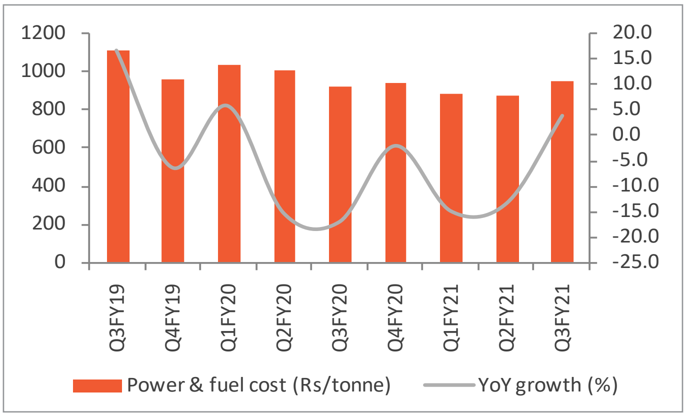
Source: Company, Sharekhan Research

EBITDA trend



Source: Company, Sharekhan Research

Power and fuel cost trend

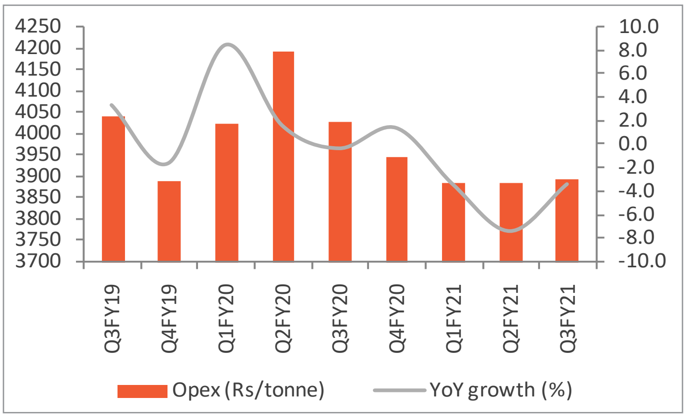


Source: Company, Sharekhan Research

Freight cost trend

Source: Company, Sharekhan Research

Opex trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Improving demand brightens outlook

The cement industry has seen sustained improvement in demand in the past 15 years, barring a couple of years, while regional cement prices have been on a rising trajectory over the trailing five years. Amidst COVID-19 led disruption, the cement industry continued to witness healthy demand from the rural sector, while infrastructure demand is expected to pick up from Q3FY2021, as labourers return to project sites. The sector's long-term growth triggers in terms of low per capita consumption and demand pegged at 1.2x GDP remain intact. Evidently, the government's Rs. 111 lakh crore infrastructure investment plan from FY2020 to FY2025 would lead to a healthy demand environment going ahead.

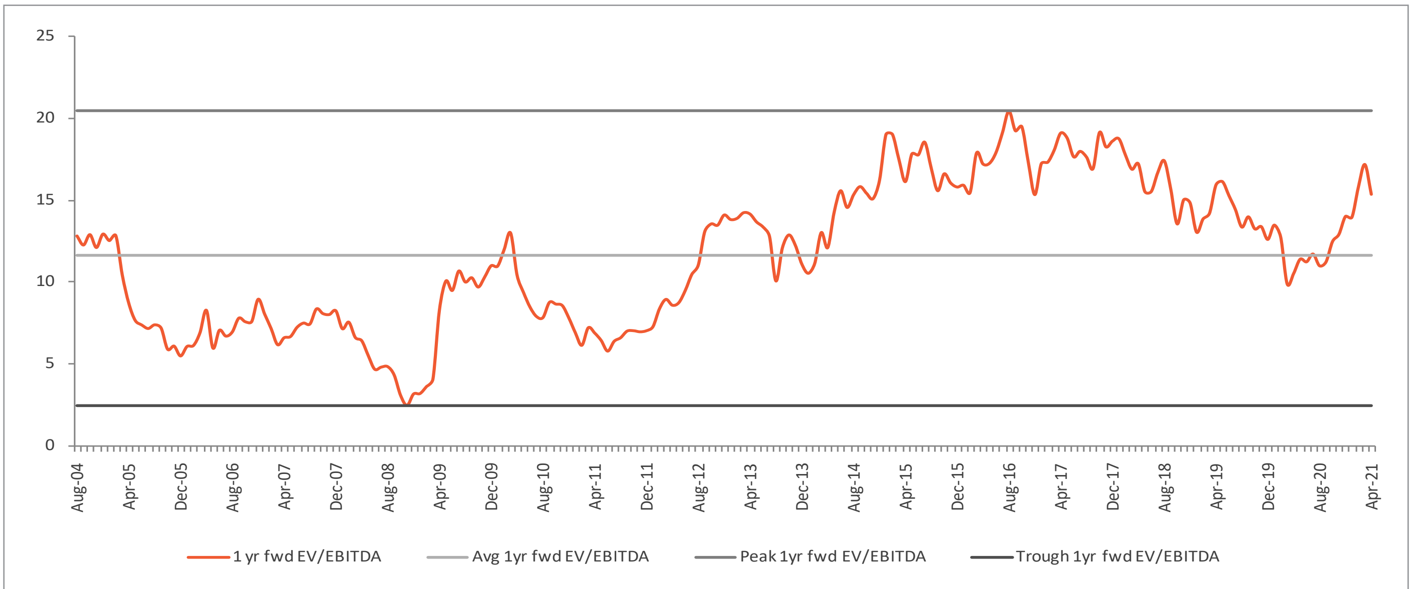
■ Company outlook - Healthy cement demand, profitability, and balance sheet health to remain favourable

UltraTech is expected to see sustained demand emanating from the rural sector, while infrastructure execution gathering pace in H2FY2021 is expected to lead to better-than-expected volume offtake for FY2021. The company further expects FY2022 to be a blockbuster year in terms of volume offtake, considering low base. The company's 19.5 mtpa capacity addition plan at a capital expenditure of Rs. 6,527 crore would take its India capacity to 130.9 mtpa. The company is well placed to benefit from rising cement demand over the next four to five years. Overall, the company's outlook in terms of cement demand, profitability, and balance sheet is expected to remain favourable.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 8,000

We expect UltraTech to be remain a key beneficiary as the COVID-led restrictions ease in India and the sector sees a rise in pent-up demand led by both government led infrastructure investment and residential markets. Ultratech has corrected by over 12% over the past fortnight on account of rising fears of lockdowns domestically amidst increasing COVID-19 cases. We believe that the sharp correction provides an opportunity to invest believing that the impact of sporadic lockdowns in the country to be a near-term phenomenon. As COVID-led restrictions are eased, we expect the demand to return to normalcy during FY2022 while structural growth drivers for the company's growth remains intact. The company is well poised to capture the growth opportunities that lie ahead with its ongoing capacity expansion plans. UltraTech is currently trading at 13.5x its EV/EBITDA on FY2023 earnings, which we believe provides room for upside. Hence, we continue to maintain our Buy rating on the stock with an unchanged PT of Rs. 8,000.

One-year forward EV/EBITDA (x) band



Source: Company Data; Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
UltraTech Cement	32.5	27.3	16.0	13.5	3.7	3.3	12.0	12.7
Shree Cement	41.5	36.4	20.4	17.8	6.1	5.3	15.6	15.5
The Ramco Cement	26.8	23.7	15.9	14.0	3.6	3.1	14.2	14.1
Dalmia Bharat	30.8	25.3	10.0	8.6	2.4	2.2	8.0	9.0
JK Lakshmi Cement	14.6	11.9	6.0	5.0	2.0	1.7	14.8	15.7

Source: Sharekhan Research

About company

UltraTech's parent company, Aditya Birla Group, is in the league of Fortune 500 companies. UltraTech is the largest manufacturer of grey cement, ready mix concrete (RMC), and white cement in India. With a consolidated grey cement capacity of 116.75mtpa, it is the third largest cement producer in the world, excluding China, and the only one globally (outside China) to have 100+mtpa of cement manufacturing capacity in a single country. The company's business operations span across UAE, Bahrain, Sri Lanka, and India.

Investment theme

UltraTech is India's largest cement company. We expect UltraTech to report industry-leading volume growth on account of timely capacity expansion (inorganic and organic expansions) and revival in demand (demand pick up in infrastructure, urban housing along with continued demand emanating from the rural housing segment).We expect the company to be the biggest beneficiary of multi-year industry upcycle, being a market leader and its timely scaling up of capacities and profitability in the shortest possible time

Key Risks

- Slowdown in government spending on infrastructure and increased key input costs led by pet coke and diesel prices.
- Slowdown in the housing sector, especially affordable housing projects.
- Inability to improve capacity utilisation and profitability of acquired units.

Additional Data

Key management personnel

Mr. Kumar Mangalam Birla	Non Independent Director-Chairman
Mr. KK Maheshwari	Managing Director
Mr. Atul Daga	Executive Director & CFO
Mr. Sanjeeb K Chatterjee	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Grasim Industries Ltd	57.28
2	Life Insurance Corp of India	3.35
3	Standard Life Aberdeen PLC	1.90
4	SBI Funds Management Pvt Ltd	1.41
5	Vanguard Group Inc/The	1.40
6	Kotak Mahindra Asset Mgmt	1.29
7	Pilani Investment & Industries Cor	1.21
8	Franklin Resources Inc	1.17
9	BlackRock Inc	1.07
10	ICICI Prudential Life Insurance Co	0.90

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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